AN ANALYSIS OF THE EFFICIENCY OF WORKING CAPITAL MANAGEMENT AT THE ROADS CONTRACTOR COMPANY LIMITED

A THESIS SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (FINANCE) OF THE UNIVERSITY OF NAMIBIA

BY

AUNE KWATHIINDJE KEENDJELE

200608771

APRIL 2018

SUPERVISOR: DR. SIMON AKPO (IUM)
ABSTRACT

Working capital is the most vital part of any business. Working capital management is one of the ways in which a financial manager manages the operational resources of a business. It involves the decision regarding the composition and amount of current assets and current liabilities. Working capital is the life-blood of any corporate. In this study the researcher has selected the Road Contractor Company, (RCC), from the top 97 State Owned Enterprises, (SOEs). This study is based upon primary data and secondary data that was collected from the website of the company, the company’s annual reports, for the financial years 2007-2011.

The aim of this study was to investigate the disposal and management of RCC’s working capital and to examine the elements that hinder the efficiency of working capital management at the Roads Contractor Company Limited. Forty three employees from the RCC were selected and interviewed through semi-structured questionnaires. Using financial ratios, the study performed an analysis of the financial statements of the RCC for the financial years ended 2007/08, 2008/09, 2009/10 and 2010/11. Working capital management of RCC is mainly affected by the nature of business, scale of operations, business cycles, seasonal factors, production cycles, credit allowed, credit availed, operating efficiency, industry competition and inflation among others. Using the technique of ratio analysis, the study found that different components of working capital management such as liquidity management, inventory management, accounts receivable management and accounts payable management are not properly managed thereby affecting the overall system of working capital management and company performance. The study further found that the company has a negative net working capital, hence, making it difficult for the company to meet its operation’s demands. Recommendations derived from this study are that RCC needs to adequately improve its working capital management by ensuring proper management of its current assets and current liabilities. The company needs to efficiently and effectively collect its accounts receivables to ensure adequate cash flow in the working capital cycle. The company also needs to honour its obligations to suppliers in order to keep the customer-supplier relationship and secure credit facilities.
Table of Contents

ABSTRACT ............................................................................................................. ii
LIST OF FIGURES ................................................................................................. vi
LIST OF TABLES ................................................................................................. vii
DECLARATION .................................................................................................... ix
DEDICATION ........................................................................................................ x
ACKNOWLEDGEMENTS ...................................................................................... xi
CHAPTER ONE ................................................................................................... 1
INTRODUCTION ................................................................................................. 1
  1.1 Introduction ................................................................................................ 1
  1.2 Background of the Study .......................................................................... 1
  1.3 Statement of the Problem ........................................................................ 3
  1.4 Objectives of the Study ........................................................................... 4
  1.6 Significance of the Study .......................................................................... 5
  1.7 Limitations of the study ........................................................................... 5
  1.9 Organisation of the Study ......................................................................... 6
  1.10 Terminology ............................................................................................ 6
  1.11. Summary ................................................................................................... 7
CHAPTER TWO .................................................................................................. 8
LITERATURE REVIEW ....................................................................................... 8
  2.1 Introduction ............................................................................................... 8
  2.2 Theoretical literature review .................................................................... 8
    2.2.1 The concept of working capital ......................................................... 8
    2.2.2 Working Capital Management .......................................................... 10
    2.2.3 Why Working capital in Organizations? ......................................... 11
    2.2.4 Importance of working capital management .................................... 11
    2.2.5 Measuring and managing liquidity .................................................... 12
    2.2.6 Receivable Management .................................................................. 13
    2.2.7 Inventory Management .................................................................... 14
    2.2.8 Accounts Payable Management ....................................................... 15
  2.3 Empirical Literature Review ..................................................................... 15
    2.3.1 Global Trends in Working Capital Management ......................... 15
    2.3.2 Factors affecting working capital ...................................................... 21
  2.4 Summary and Implications ....................................................................... 23
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS........................................90
5.1 Introduction ..............................................................................................90
5.2 Summary of Findings .............................................................................91
5.3 Conclusions ............................................................................................92
5.4 Recommendations ..................................................................................93
5.5 Suggestion for Further Study ...............................................................97
REFERENCES ...............................................................................................99
APPENDICES .................................................................................................105
Appendix 1: Questionnaire ..........................................................................105
Appendix 2: Authorization Letter .................................................................111
Appendix 3: Language & Copy-Editing Certificate ......................................112
LIST OF FIGURES

Figure 2.1: Illustration of the cash conversion cycle .......................................................20
Figure 4.1: Gender .............................................................................................................37
Figure 4.2: Age-Groups .....................................................................................................38
Figure 4.3: Level of Education .........................................................................................40
Figure 4.4: Tenure .............................................................................................................41
Figure 4.5: Job Level and Categories ..............................................................................42
Figure 4.6: RCC’s current ratio for the financial years 2007 – 2011 .........................71
Figure 4.7: RCC’s Quick ratio for the financial years 2007 – 2011 .........................74
Figure 4.8: RCC’s Cash ratio for the financial years 2007 – 2011 ..........................76
Figure 4.9: RCC’s Accounts Receivable Turnover for the financial years 2008 – 2011.79
Figure 4.10: RCC’s Asset Turnover Ratio for the financial years 2008 – 2011 ..........82
Figure 4.11: RCC’s Inventory Turnover Ratio for the financial years 2008 – 2011 ......84
Figure 4.12: RCC’s Accounts Payable Turnover Ratio for the financial years 2008 –
2011 ................................................................................................................................87
LIST OF TABLES

Table 4.1: Likert Scale ..............................................................................................................37
Table 4.2: Responses on Nature of Business (n=43) ..............................................................44
Table 4.3: Responses on scale of operations (n=43).................................................................45
Table 4.4: Responses on business cycle (n=43) .........................................................................46
Table 4.5: Responses on seasonal factors (n=43) .....................................................................47
Table 4.6: Responses on production cycle (n=43) ....................................................................48
Table 4.7: Responses on credit allowed (n=43) .........................................................................50
Table 4.8: Responses on credit availed (n=43) .........................................................................51
Table 4.9: Responses on operating efficiency (n=43) .................................................................52
Table 4.10: Responses on inventory management (n=43) ..........................................................54
Table 4.11: Responses on growth prospects (n=43) .................................................................56
Table 4.12: Responses on level of competition (n=43) ..............................................................57
Table 4.13: Responses on inflation (n=43) ...............................................................................58
Table 4.14: Responses on liquidity (n=43) ..............................................................................59
Table 4.15: Responses on accounts receivable (n=43) ..............................................................61
Table 4.16: Responses on accounts payable (n=43) .................................................................63
Table 4.17: Responses on dividend policy (n=43) .....................................................................64
Table 4.18: Responses on plant efficiency (n=43) ....................................................................65
Table 4.19: Responses on economic impact (n=43) .................................................................66
Table 4.20 Group Net working capital ......................................................................................68
Table 4.21 Company Net working capital ..................................................................................68
Table 4.22 Group current ratio ..................................................................................................70
Table 4.23 Company current ratio ............................................................................................70
Table 4.24 Group Quick/ Acid test ratio ....................................................................................72
Table 4.25 Company Quick/ Acid test ratio .............................................................................73
Table 4.26 Group’s Cash ratio ..................................................................................................75
Table 4.27 Company’s Cash ratio .............................................................................................75
Table 4.28 Group Accounts Receivable Turnover .....................................................................78
Table 4.29 Company Accounts Receivable Turnover ..............................................................78
Table 4.30 Group Asset Turnover Ratio ...................................................................................81
Table 4.31 Company Asset Turnover Ratio.................................................................81
Table 4.32 Group Inventory Turnover Ratio ...............................................................83
Table 4.33 Company Inventory Turnover Ratio ...........................................................83
Table 4.34 Group Accounts Payable Turnover Ratio ....................................................86
Table 4.35 Company Accounts Payable Turnover Ratio ...........................................86
DECLARATION

I, Aune Kwathiindje Keendjele, hereby declare that this thesis is a result of my own work, except to the extent indicated in the acknowledgements and references included in the body of the report, and that it has not been submitted in partial fulfilment for any other degree to any other university.

Date:…………………………..

Signature:………………………….
DEDICATION

I dedicate this thesis to my husband Johannes Ndeutepo for his love, hard work, support and encouragement during the time of my research. It is truly a huge blessing to have him in my life. I dedicate this work to my parents, my mother Saara Keendjele, my father Eliaser Keendjele and my siblings for their support, prayers and guidance during my study. I further want to thank the respondents (RCC’s employees) for taking time within their busy schedules to take part in the research.
ACKNOWLEDGEMENTS

First and foremost I would like to thank the Almighty God for his love, protection, strength and endless blessings he has bestowed upon me during the time of my study. I thank God for the spiritual guidance, strength and inspiration to believe in myself and that he made it possible for me to be able to achieve this important milestone in my life.

I would like to express my sincere gratitude and appreciation to my supervisor Dr Simon Akpo, for his invaluable guidance, advice and tolerance throughout the research process. His advice and support in the early stages and during data interpretations has been of great help.

I also want to thank all my friends for their words of encouragement and support during the difficult times of my study.

I would like to express my warm gratitude to the very important people in my life; my dearest husband, my mother-in-law Esther Ndeutepo, my parents Saara Keendjele and Eliaser Keendjele, and my entire family for their abundance support, unconditional love and words of encouragements, words cannot be enough to express my appreciation.
CHAPTER ONE

INTRODUCTION

1.1 Introduction

The purpose of this paper is to examine the efficiency of working capital management at the Roads Contractor Company Limited. The capital which is used to run the day-to-day operations of a company is referred to as Working Capital (denoted as current assets less current liabilities) and it should remain sufficient to fund the business’ daily operations (Ganesan, 2007). This chapter outlines the background of the study and the statement of the problem. It also highlights the research objectives and the significance of the study. Thereafter, it provides the limitations and delimitations of the study, organisation of the study and the definition of key terminologies.

1.2 Background of the Study

The concept of working capital management addresses companies’ management of working capital, thus administering their short-term capital and the goal of the management of working capital is to promote a satisfying liquidity, profitability and shareholders’ value (Makori and Jagongo, 2013). Working capital management is the ability to control effectively and efficiently the current assets and current liabilities in a manner that provides the firm with maximum return on its assets and minimizes payments for its liabilities (Makori and Jagongo, 2013).

It is therefore, vital that companies must ensure that there is sufficient cash flow in order to meet their short-term debt obligations and operating expenses, thereby administering
required capital for day to day operations. Excellent implementation of working capital management would be necessary to improve earnings and maintain the good financial health of a company (Samson, Mary, Yemisi and Erekpitan, 2012).

Inefficient management of working capital can lead to huge losses, poor performance and an organization’s bankruptcy i.e. a large amount of working capital would mean that the company has idle funds and as a result can lead to poor performance (Sri Nivas, 2013). On the other hand, insufficient working capital would mean that the company has no funds to finance the day to day operations such as buying materials for production. Results of various studies conducted on working capital management show that there is a strong relationship between the profit of a company and the efficiency of its working capital management.

The Road Contractor Company Limited (RCC) was established in accordance with the Roads Contractor Company Act No 14 of 1999 alongside the Roads Authority and the Roads Fund Administrator then, the department of works at the Ministry of Works Transport and Communication (Roads Contractor Company Act No 14 of 1999: Amended). The mission of the RCC is to construct and maintain quality civil engineering infrastructure in order to meet the expectations of Clients and Stakeholders, whereas its vision is to be the Namibian contractor of choice (Roads Contractor Company Act No 14 of 1999: Amended). The RCC’s main objective is to undertake work relating to the construction or maintenance of roads or any other construction works in accordance with sound and generally accepted business principles (Roads Contractor Company Act No 14 of 1999: Amended). In April 2008, the company opted for a business turnaround strategy designed and planned with a primary objective of restoring the company and transform it
into a profit-making one (Roads Contractor Company Limited, 2012). As a result the company recovered from a loss of N$65 million in the 2007-08 financial year to a profit of N$17.4 million in 2010-11 (Roads Contractor Company Limited, 2012). Its consolidated financial results which includes the financial performance of subsidiaries and joint ventures showed an improvement from a loss of N$23.5 million in 2007-08 to a profit of N$28 million in 2010-11 (Roads Contractor Company Limited, 2012).

Despite the successful turnaround strategy which yielded good results in 2010-11 the company appears to be back in financial distress. According to the Construction Review (2015) the RCC needs at least US$33.6 Million (N$400 million) bail out from the government for its stability and operations. The report in the Construction Review states that the company owes value-added-tax (VAT) of millions of dollars and as a result its bank account was frozen by the government in 2015. The financial problems are bigger than just frozen amounts (Construction review, 2015). Previous researchers’ findings indicate that financial distress in companies could be a result of inefficient working capital management. It is against this background that this research analysed the efficiency of working capital management at RCC.

1.3 Statement of the Problem

The major problem is that the RCC has been experiencing a financial downturn for the past few years. The company needs at least US$33.6 Million, (N$400 million), bail out from the government for its stability and operations (Construction Review, 2015). The company has not paid VAT dating back to 2006, and as a result, the contractor’s bank account was frozen by the government in 2015 (Construction Review, 2015). Namibia’s
permanent secretary for the Ministry of Works and Transport, Mwatile stated that the company which is owned by the state, needs help and financial problems were far bigger than frozen amounts (Construction Review, 2015). The government of Namibia is continuously investing huge amounts of money in the RCC with a hope of making a return on its investment, reviving the economy and creating employment, while the company continues to declare massive losses at the end of each financial year (Shipanga and Strompen, 2010). The downturn on the RCC’s financial status has prompted the current research which thoroughly analysed the disposal and management of its working capital.

1.4 Objectives of the Study

The main objective of the study was to investigate the disposal and management of RCC’s working capital and to examine the elements that hinder the efficiency of working capital management at RCC.

The specific objectives of this research project were:

- To identify the factors affecting the efficiency of working capital management at RCC;
- To determine the amount of working capital employed at RCC;
- To examine the effects of different components of working capital management on RCC’s performance and;
- To make recommendations based on the findings of the study.
1.6 Significance of the Study

The study will contribute to the economic knowledge of working capital management which is a very important aspect of corporate financial management. The study will make recommendations on the trends of working capital management that RCC should adopt to attain efficient working capital management which eliminates risks of inability to meet the due short term obligations.

Further, the study can be used for other research as it contributes to the literature on working capital management of public enterprises in Namibia.

1.7 Limitations of the study

There are many public enterprises in Namibia which provide services in many different economic sectors such as: roads sector, housing sector, health sector, education sector etc. Public enterprises in different sectors have different operation challenges and different working capital requirements hence, the study is restricted to RCC. However, the findings gathered can be used to draw some generalisations across similar sectors. Also, confidentiality issues made it difficult to gather information.

1.8 Delimitation of the study

The study is restricted to RCC because of the financial constraints and time, with the focus on working capital management. Working capital management was chosen because of the major role it plays in financial management. Efficient working capital management maximizes profit while preserving liquidity of the firm, thereby ensuring trade-off between the two (Raheman and Nasr, 2007). There is also limitation with regards to
literature on working capital management of Namibian firms as no documented research on similar topic could be obtained.

1.9 Organisation of the Study

The study is organised in the following manner:

1.9.1 Chapter 1: Introduction and Background of the Study.

1.9.2 Chapter 2: Literature Review and Theoretical Framework.

1.9.3 Chapter 3: Research Design and Methodology.

1.9.4 Chapter 4: Data Presentation, Analysis and discussions of findings

1.9.5 Chapter 5: Summary, Conclusions and Recommendations.

1.10 Terminology

1.10.1 Gross Working Capital refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year and include cash, short-term securities, debtors, (accounts receivable or book debts) bills receivables and stock (inventory).

1.10.2 Net Working Capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to mature for payment within an accounting year and include creditors (accounts payable), bills payable, and outstanding expenses. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities.
1.11. **Summary**

This chapter covered the introduction, the background to the study and the statement of the problem. It also highlighted the research objectives and the significance of the study. Thereafter, it provided the limitations and delimitations of the study, organisation of the study and the definition of key terms, in line with the concept of working capital management and what it addresses in the companies’ management of working capital, thus administering their short-term capital and the goal of the management of working capital with a view to liquidity, profitability and shareholders’ value (Makori and Jagongo, 2013). Working capital management is the ability to control effectively and efficiently the current assets and current liabilities in a manner that provides the firm with maximum return on its assets and minimizes payments for its liabilities. This subject is the crux of this study, with special reference to RCC head office in Windhoek. The next chapter presents the literature review.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction
This section reviews related literature relevant to this study, in other words similar studies conducted by other researchers. For any study to be relevant, it must contribute to the existing knowledge about the research problem.

2.2 Theoretical literature review
In this section the researcher will discuss the meaning and definition of working capital and the models that informed the study

2.2.1 The concept of working capital
Working capital is commonly referred to as the money used by businesses for their daily operations. Adeniji cited by Atseye, Ugwu and Tokon, (2015) states that working capital is the available capital for conducting day-to-day operations of an organization represented by its net current assets. The concept of working capital management has been applied in business for decades even before the term was formally coined and used by finance experts. Working capital management passes through different stages, mainly – the control, optimization and value measurement stages. According to Brealey, Myers and Allen, (2006) “working capital management originally started as a systematic approach of controlling the cash inflows and outflows, accounts receivables, accounts payables and inventories”.
Current assets are those assets that can be converted into cash within a short period of time and the cash received is again invested back into these assets, thus it is constantly revolving or being turned around. A company acquires inventory or raw materials using cash. The inventory will be used to produce finished goods which will then be sold to generate cash.

There are two possible interpretations of working capital concepts:

- **Gross Working Capital** - refers to the firm’s investments in the current assets and includes cash, short term securities, debtors, bills receivables and inventories (Tulsian, 2009).

- **Net Working Capital** - refers to the difference between current assets and current liabilities (Ibrahimov, 2014). Current liabilities are claims of outsiders which are expected to mature for payment within an accounting period (Trivedi, 2010). Net working capital may be positive or negative. A positive net working capital will arise when the current assets exceed the current liabilities, whereas a negative net working capital is when the current liabilities exceed the current assets, such that there is no working capital but there is working capital deficit (Trivedi, 2010). Current liabilities comprise of:

1. Trade creditors or accounts payables
2. Accrued expenses
3. Short-term borrowings
5. Bank overdrafts
The two concepts of working capital are equally important for the efficient management of working capital. The gross working capital which focuses on the total current assets, tells us how best we can optimize our investment in the currents assets. It also tells us how the current assets should be financed. The net working capital indicates the liquidity of the firm as it suggests the extent to which working capital needs may be financed by a permanent source of funds.

2.2.2 Working Capital Management

Working capital management is a managerial accounting strategy which focuses on maintaining efficient levels of both components of working capital: current assets and current liabilities, in respect to each other. Working capital management also refers to the decisions relating to working capital and short-term financing and it involves managing the relationship between a firm’s short-term assets and its short-term liabilities (Jacob and Phillip, 2016).

The goal of working capital management is to ensure that a firm is able to continue its operations and that is has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses, hence it therefore makes a lot of academic sense to say that if businesses are managing their working capital well, they will certainly have a lesser need to borrow. Companies with cash surpluses need to manage working capital to ensure that those surpluses are invested in ways that will generate returns proportionate with the capital employed. The amount of working capital (current assets less current liabilities) and the current ratio (current assets divide by current liabilities) are valuable indicators of
a company’s ability to pay its debt in the near future (Meigs, Meigs, Bettner and Whittington, 1998).

### 2.2.3 Why Working capital in Organizations?

Management needs to use a combination of policies and techniques of working capital that are aimed at managing the current assets, generally cash and cash equivalents, inventories and debtors. According to Srinivasan (1999), a cash management plan involves: cash forecasting, cash flow control, optimum cash level and investing surplus cash.

Managing capital deals with taking the relevant steps to ensure availability of important resources which helps to generate cash flow. This could lead to cost reductions and the efficient use of cash resources. Moyer, Maguigan and Kretlow, (2001) submit that effective cash management is particularly key for small and medium firms for the following reasons:

1. To prepare budgets for loans;

2. To avoid waste of resources;

3. To make available enough cash to support trading activities;

4. Ensure effective and efficient cash usage.

### 2.2.4 Importance of working capital management

Empirical and theoretical evidence, points out that working capital management is vital for the survival of all firms. A firm may not have much investment in fixed assets, but it has to invest in current assets (Atseye et al., 2015). Firms have to utilize their working
capital effectively and efficiently as the amounts invested in working capital are often high in proportion to total assets employed. They need to operate at an optimal level in order to generate enough cash to support their day-to-day operations and avoid the risk of collapse.

Smith as cited by Atseye et al., (2015) argues that management of working capital directly affects the liquidity and the profitability of the corporate firm and subsequently it’s net worth. Working capital therefore aims at maintaining an equilibrium between liquidity and profitability while conducting the day-to-day business operations. Implementing an effective working capital management system is an excellent way for many companies to improve their earnings. The main aspects of working capital management are ratio analysis and management of the individual components of working capital. Mandiefe, (2016) states that working capital management is essential for the solvency, ability to face crisis, regular return and smooth operation of a business. Working capital therefore needs to be carefully controlled as it is regarded as the lifeblood of the business and its effective provision can do much to ensure success of the business, while its inefficient management can lead to the downfall of the enterprise.

2.2.5 Measuring and managing liquidity
Liquidity is the extent to which a company is able to meet its short-term obligations using assets that can be readily transformed into cash. Liquidity management refers to the ability of a firm to generate cash when and where it is need, such as being able to pay bills and continue with operations (CFA Institute, 2016).
According to the CFA Institute (2016), liquidity ratios are calculated to measure the company’s ability to meet short-term obligations to creditors as they mature or become due. Liquidity analysis focuses on the relationship between current assets and current liabilities. The two types of liquidity ratios are current ratio and quick ratio which is also known as the acid test ratio. The current ratio is the ratio of current assets to current liabilities: \[ \text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}} \].

The quick ratio is the ratio of the quick assets to current liabilities. Quick assets are those current assets excluding inventory:

\[ \text{Quick ratio} = \frac{(\text{Cash} + \text{Short-term marketable securities} + \text{Receivables})}{\text{Current liabilities}} \]

The greater the current ratio or the quick ratio, the higher the company’s liquidity. Meaning the greater the current ratio or quick ratio, the greater the potential ability to cover the current liabilities.

### 2.2.6 Receivable Management

Accounts receivables are trade credits that result from the sale of goods and services. According to Bankapure (2012), account receivables are the outcomes of rapid growth of credit sales granted by the firm to their customers and form an important position of the current assets of a firm. Accounts receivable management means making decisions related to the investment in current assets as an integral part of the operating process, the objective being maximization of returns on the investment in receivables (Bankapure 2012). If not properly managed, accounts receivables can reduce profitability and liquidity.
There are three primary activities in accounts receivable management: granting credit and processing transactions, monitoring credit balances and measuring performance of the credit utility. According to Bankapure (2012), the goals of the accounts receivable management systems are:

1. Efficient processing and maintaining accurate, up-to-date records that are available to credit managers and other interested parties as soon as possible after payment has been received
2. Control of account receivable and ensuring that accounts receivable records are correct
3. Collection on accounts and coordination with the treasury management function.

By keeping track of the level of accounts receivables, a company can measure the efficiency by which it turns sales into cash (Niklas and Viktor, 2014).

**2.2.7 Inventory Management**

Inventories are stockpiles that the company purchases for resale or for the production of finished products. The primary goal of inventory management is to maintain the best required level of inventory so that the production team or sales team can make or sell the company’s products. Inventory must be sufficient but not too much.

If too much unwanted inventory is kept on hand, it is a liability because funds keep on being tied in stock without generating other income, however if inventory kept is of use, then it’s an asset. Lack of inventory hampers production and excess inventory increases storage costs for the company. The importance of keeping the right level of inventory lies in the fact that large amounts of cash remains invested in inventory until it has been sold off or utilized and
receivables have been realized. According to Gupta and Gupta (2012), the objective of inventory management is to maintain an optimum level of inventory at the right place with minimum costs to avoid stock outs.

2.2.8 Accounts Payable Management

Accounts payable arises from trade credit when goods and services are purchased from suppliers and payments for such goods and services are delayed (CFA Institute, 2016). Accounts payable management is the set of policies, procedures and practices put in place to efficiently control the accounts payable (CFA Institute, 2016). A key working capital link is the purchasing-inventory-payable process. If it is handled efficiently, the process minimizes access to funds in the pipeline, however if handled inefficiently funds remain tied up and reduce the company’s liquidity. For example if the company purchases excess inventory on credit, funds remain tied up in inventory without generating income to pay off the suppliers. Also by delaying payment, companies can use the money for a longer period of time, thus lowering the need for other financing (Niklas and Viktor, 2014).

2.3 Empirical Literature Review

2.3.1 Global Trends in Working Capital Management

Ganesan, (2007) analyzed the working capital management efficiency in the telecommunications equipment industry. The relationship between working capital management efficiency and profitability was examined using correlation analyses. By using a sample of 443 annual financial statements of 349 telecommunication equipment companies covering the period 2001-2007, this study found evidence that even though
“days working capital” is negatively related to the profitability, it is not significantly impacting the profitability of firms in the telecommunications equipment industry.

An empirical survey of working capital management efficiency by Lemer (2009) from the school of graduate studies, Strathmore University Nairobi, found that efficient working capital management is one of the preconditions for the continued existence of an organization. It examined a sample of 8 out of 31 universities in Tanzania from the period 2005 to 2009. From its research work, the regression result was that, appreciated return on assets has significant positive associations with working capital management efficiency. The positive relationship supports hypotheses one which states that there is a positive relationship; this result shows that return on assets has a statistically significant positive relationship with working capital management efficiency. Aggressive working capital management in law management reflects in current assets influencing income positivity.

Sharma and Kumar, (2009) had presented another research paper on the topic of the effect of working capital management on firm profitability: Empirical evidence from India. The main aim of this article was to examine the effect of working capital on the profitability of Indian firms. Researchers collected data from a sample of 263 nonfinancial BSE 500 firms listed at the Bombay Stock (BSE) from 2000 to 2008 and evaluated the data using OLS multiple regression. The findings of the study significantly depart from the various international studies conducted in different markets. The results reveal that working capital management and profitability is positively correlated in Indian companies. The study further reveals that inventory of a number of days and number of day’s accounts
payable is negatively correlated with a firm’s profitability, whereas number of days accounts receivables and cash conversion period exhibits a positive relationship with corporate profitability. The present study contributes to the existing literature by examining the effect of working capital management on profitability in the context of an emerging capital market such as India.

Deloof (2003) discussed that most firms have large amounts of cash invested in working capital, as well as substantial amounts of short-term payables as a source of financing. It can therefore be expected that the way in which working capital is managed will have a significant impact on the profitability of firms. Using correlation and regressing tests, the researcher found a significant negative relation between gross operating income and the number of days accounts receivable, inventories, and accounts payable of Belgian firms. Based on the findings, he suggested that managers can create value for their shareholders by reducing the number of days accounts receivable and inventories to a reasonable minimum. The negative relation between accounts payable and profitability is consistent with the view that less profitable firms wait longer to pay their bills.

Padachi, (2006) examined the trends in working capital management and its impact on Mauritian Small Manufacturing Firms. He emphasized that the working capital needs of an organization change over time as does its internal cash generation rate. As such, the small firms should ensure a good synchronization of its assets and liabilities. He concluded that there is a pressing need for further empirical studies to be undertaken on small business financial management, in particular their working capital practices by extending the sample size so that industry-wide analysis can help to uncover the factors
that explain the better performance for some industries and how these best practices could be extended to other industries.

Raheman and Nasr, (2007) also elucidated that most Pakistani firms have large amounts of cash invested in working capital. It can therefore be expected that the way in which working capital is managed will have a significant impact on profitability of those firms. Like Deloof (2003), Raheman and Nasr (2007) also found a significant negative relationship between net operating profitability and the average collection period, inventory turnover in days, average payment period and the cash conversion cycle for a sample of Pakistani firms listed on the Karachi Stock Exchange. Based on their analysis, they concluded that their results could be further strengthened if the firms manage their working capital in more efficient ways. Management of working capital means “management of current assets and current liabilities, and financing these current assets”. They stated that if those firms properly manage their cash, accounts receivables and inventories in a proper way, it will ultimately increase profitability of those companies. They suggested that further research should be conducted on the same topic with different companies and extending the years of the sample and the scope of the working capital components management including cash, marketable securities, receivables and inventory management. Similar studies were conducted in various African countries such as Kenya, Nigeria and South Africa but not in Namibia.

Mathuva (2010) conducted a survey on Kenyan Listed Firms. Based on his findings, he stated that the management of a firm can create value for their shareholders by reducing the number of days accounts receivable and by increasing their inventories to a reasonable level. Firms can also take long to pay their creditors in as far as they do not strain their
relationships with these creditors. He concluded that firms are capable of gaining sustainable competitive advantage by means of effective and efficient utilization of the resources of the organization through a careful reduction of the cash conversion cycle to its minimum. In so doing, the profitability of the firms is expected to increase.

Makori and Jagongo (2013) also analysed the effect of working capital management on manufacturing and construction firms’ profitability in Kenya for the period 2003 to 2012. Using correlation and regression models, they found a negative relationship between profitability and the number of days accounts receivable and conversion cycle but a positive relationship between profitability and the number of days of inventory and number of days payable. Further, they found that financial leverage, sales growth, current ratio and firm size also have a significant effect on the firm’s profitability. Unlike Deloof (2003), Makori and Jagongo (2013) concluded that management should increase their inventories to a reasonable level and firms can also take long to pay their creditors in as far as they do not strain their relationships with creditors. They further concluded that firms can gain sustainable competitive advantage by effectively and efficiently utilizing their resources through careful reduction of the cash conversion cycle. In doing so, the profitability of the firm is expected to increase.

Findings and conclusions drawn by (Deloof 2003), (Padachi 2006), (Raheman and Nasr 2007), (Mathuva 2010) and (Makori and Jagongo 2013) are relatively uniform. They all concluded that firms should manage their working capital in more efficient ways to increase profitability. In so doing, they would carefully reduce the cash conversion cycle.
Literature however revealed that there is a pressing need for further empirical studies on working capital practices to help uncover the factors that explain the better performance for some firms and how these best practices could be extended to other firms / industries.

Various methods have been applied to measure working capital management. The traditional methods of working capital management such as current ratio, quick ratio and net working capital. Other methods used as proxies to measure working capital are the cash conversion cycle and weighted cash conversion cycle. Although the traditional methods have been successfully used to measure working capital management, the CCC remains the most popular method, (Deloof, 2003; Padachi, 2006; Raheman and Nasr 2007; Mathuva 2010; Makori and Jagongo 2013). This study will use both the traditional methods and the cash conversion cycle to cover a wide analysis of the components of working capital management. A company with a lower CCC is more efficient, because it turns its working capital over more times per year, and allows it to generate more money per money invested (Ngwenya, 2012).

![Illustration of the cash conversion cycle](image)

**Figure 2.1: Illustration of the cash conversion cycle**
Uyar (2009) described the working capital cycle as: it starts when a company buys inventory on credit from suppliers which gives rise to accounts payable. During the course of the business, the company sells some of its finished goods to customers on credit, which gives rise to accounts receivable. The time taken to pay for the inventory taken on credit is referred to as average payment period. The CCC is calculated as No. of Days Account Receivable + No. of Days Inventory – No. of Days Account Payable. Longer CCC indicates more time between outlay of cash and recovery. The value for the CCC can be positive or negative.

A positive CCC indicates the number of days a company must borrow or tie up capital while awaiting payment from customers and a negative value result indicates the number of days a company has received cash from sales before it must pay its suppliers (Uyar, 2009). The CCC can be improved by reducing the amount of time that goods are held in inventories, collecting AR more quickly and paying debts more slowly. Net working capital is the difference between current assets and current liabilities (Ganesan, 2007).

### 2.3.2 Factors affecting working capital

Business should prepare its financial plan in such a way that it has neither surplus nor inadequate working capital (Rani, 2013). In business, there is no set of rules or formula to determine the working capital requirement, however, the amount of working capital required depends on various factors. These factors need to be considered when determining the requirement of working capital.

1. **Nature of business**: Nature of the business affects the working capital requirements of the business. According to Rani, (2013), transport, electricity, water and other public utilities require relatively lower working capital while
trading and industrial require more working capital because they have to keep adequate stock, cash and debtors.

2. **Size of business:** The actual size of the business is measured by terms of the scale of its operations. Generally a firm with a large scale of operations requires a large amount of working capital than a firm with a small scale of operations.

3. **Production / Operating cycle:** The need of working capital is in direct proportion with the Operating cycle of a business. The longer the cycle, the larger the amount of working capital required due to the fact that working capital remains tied up in inventory and work-in-progress. The longer manufacturing time blocks money in the purchase of raw material and other supplies, labour and service costs for long periods before the finished product is finally obtained (“Conceptual framework of working capital management”).

4. **Seasonal factors:** Seasonal factors also affect working capital decisions in an organization. In case of seasonal fluctuations in sales, production will fluctuate accordingly and ultimately requirement of working capital will also fluctuate (“Conceptual framework of working capital management”). A firm may follow a steady production policy whereby even in low working capital demand seasons, the company will accumulate inventories to the high working capital demand in peak seasons. Alternatively a company may follow a policy of varying its production schedule in accordance with the changes in demand. However, literature from India indicates that following a steady production policy may not be the best option as capital remains tied up in stock for some months.

5. **Credit policy of the firm:** Credit allowed to customers affects the working capital requirements of a firm. Rani (2013) stated that a liberal credit looking without
rating the credit worthiness of the customers will lead to unnecessary tying up of funds in the book debts. Equally slow debt collection procedures can increase bad debts in a firm. Rani (2013) concluded that a strict credit policy will raise the level of working capital.

6. **Credit availed:** A firm will need less working capital if liberal credit terms are available to it and vice-versa (Rani, 2013). In other words, if sufficient credit is availed to the firm by the banks, the firms will be under no working capital pressure as they can utilize the bank facilities to finance the projects. Also, sufficient credit from creditors would mean the company is able to acquire sufficient raw materials on credit and operate smoothly.

The above factors and a lot more need to be carefully considered while determining the working capital requirement of a firm. Other factors that influence the working capital decisions include but are not limited to; growth prospects, level of competition, inflation, level of taxes and dividend policy. These factors all affect the working capital in different ways. Some, increase the working capital requirements, whilst others decrease the working capital requirements.

The main focus of working capital management is cut across both physical and also on ensuring that related costs are minimized and all incomes maximized. Working capital entails debtors, stock, and creditors.

**2.4 Summary and Implications**

The findings on working capital practices in organizations are mixed. Considering the results, it is evident that efficient management of working capital can lead a firm towards
profitability. The firms should improve their receivables and other currents asset components for sufficient working capital. Efficient management of inventories, enhances the profitability of firms. It is concluded that firms with higher working capital have a higher ratio of profitability and firms with higher total assets also have higher ratios of profitability. The firms having sufficient working capital also have enough total assets. So it is observed that firms having a sufficient proportion of working capital have a positive effect on total assets and profitability of the firms.
CHAPTER THREE

RESEARCH METHODS

3.1 Introduction

This chapter discussed the methodological instruments and tools employed in the study to meet the objectives of the study. Consequently, this chapter outlined issues such as the research design, methods of data collection, strategy of investigation and methods of data analysis. The researcher endeavoured to highlight and justify the approach that was taken to carry out the study. This covered the methodology and instruments that were used to gather data. The population, sample and sampling techniques were also discussed. It also highlighted how data was to be collected and presented.

3.2 Research design

According to Creswell (2014), the research design provides the structure and the glue that holds the research study together. The study employed a quantitative research design by incorporating structured questionnaires to collect data from the respondents. The quantitative approach examines relationships between variables, which are measured numerically and analysed using a range of statistical techniques (Saunders, Lewis and Thornhill, 2012). The research design which was used for this study also employed a descriptive research strategy, which significantly relies on quantitative research design. Creswell (2014), indicates that a research design is a set of operating guidelines within which research is carried out consistently with a scientific method. According to Denscombe (2012), a quantitative research design can utilize methods such as surveys, incorporating closed questionnaires, to a large extent. Tuckman as cited by Strugwig and
Stead (2013) states that quantitative research is used to measure the number of people who feel, think and act in a particular way. This study used the quantitative research method because it allows for a greater degree of objectivity in the sense that the research involved very few variables and prescribed procedures ensured a reliable set of answers.

### 3.3 Research Philosophy

There are two types of research methodology namely quantitative (positivist) and qualitative (interpretivist). Qualitative research generates non-numerical data. Wyse (2011) refers to qualitative research as “primarily exploratory research and is used to gain an understanding of underlying reasons, opinions and motivations for a phenomenon.” Qualitative methods are chosen when the goal of the research problem is to examine, understand and describe a phenomenon.

Quantitative research generates numerical data or information that can be converted into numbers. According to Wyse (2011) “Quantitative research is used to quantify a problem by way of generating numerical data that can be transformed into useable statistics and generalizes results from a large population”. Quantitative methods are normally used to examine the relationship between variables with the primary goal being to analyse and represent that relationship mathematically through statistical analysis.

In order to look at relationships between variables and to establish cause and effect, a quantitative approach was adopted. This approach placed importance on objectivity and reliability of findings. The quantitative approach allowed the independent and dependent variables in the study to be clearly and precisely specified.
3.4 Population
In this study, the population was made up of fifty five staff members of RCC based at head office in Windhoek, Namibia. The population comprises of all the managers (29) including seven executive managers and 26 non-management employees in six (6) different departments, namely: finance, human capital, plant hire, property, procurement and business development. All in all, the population consists of twenty five (25) male employees and the rest (30) are females. This is the population from which the sample was drawn, who served as participants in the study.

3.5 Sample
Matthews and Ross (2010) defined a sample as a small part and extract of the whole population which is studied and the results are inferred in the population. Since the population size is relatively small, the size of the sample was small as well, and for purposes of representativeness was sufficient. The sample size was determined using the following formula:

$$n = \frac{N}{1+N(e^2)}$$

N = Population, n = sample size

e = (1-93) ^ 2 margin of error

Confidence level = 93%, Margin of error = 7%, N = 55

Therefore, n = 43

This sample constituted about seventy eight percent (78%) of the total population. According to Saunders et al. (2012), this sample is representative enough and satisfies the justification for sampling validity.
3.6 Sampling

Due to the size of the population, it was not possible to record every data value of the population and sampling was therefore used. There are two basic methods of sampling: non-probability and probability sampling. Wegner (2012) refers to non-probability sampling as “…any sampling method where the sample members are not selected randomly”. All the individuals in the population thus do not have equal chances of being selected. There are four types of non-probability sampling methods and these are known as convenience sampling where whoever is available for inclusion in the sample can be included, judgmental sampling where a sample is deliberately chosen in accordance with predetermined non-probability criteria, quota which is another purposive approach and snowball sampling when there is selection of a sample where the members are connected to one another.

Probability sampling includes methods such as simple random sampling. In randomisation, each element in the population has an equal chance of being selected. Systematic sampling is an alternative to simple random sampling. Stratified sampling assures that the profile of the sample matches to the profile of the population and clusters where the population is divided into internally heterogeneous sub-groups. The study made use of the probability sampling method, which was based on the concept of simple random selection and means that every item in the population had an equal chance of being included in the sample (Wegner, 2012). In order to have a random selection method, some process or procedure must be set up that assures that the different units in the population have equal probabilities of being chosen. The sample for the quantitative research was
selected using the stratified random sampling technique where the population was divided into strata (subgroups).

### 3.7 Research Instruments

Data was collected through a self-administered structured questionnaire. The structured questionnaire was pursued to collect the demographic profiles of the participants as well as their perceptions on factors affecting the efficiency of working capital management at the company. The researcher used questionnaires in the collection of data. According to Bernard and Ryan (2010), a particular instrument should always be based on research questions and objectives. Denscombe (2011) cites that questionnaires rely on written information supplied directly by people in response to questions asked by the researcher.

The good thing about a questionnaire is that it just requires respondents to reveal straightforward information. The researcher used this instrument mainly because it is less time consuming and it is less costly. Questionnaires reduce bias in that the respondents would not be influenced by the presence of the researcher, since responses are given during the researcher’s absence. Furthermore, the respondents answer questions at their own pace and during their own spare time without the researcher having to pressurise them to complete the questionnaires. Finally, they can be carried out by the researcher or by any number of people with limited effect with regards to its validity and reliability.

However, the questionnaire has some disadvantages. Respondents may not understand the questions and the researcher would not be there to make clarifications. Respondents may be in a hurry and dishonestly answer questions and there is no way to tell how truthful
respondents were being. The respondents may ask or delegate other people to answer on their behalf, of which their perception will differ. Furthermore, some respondents may just withhold the information because they do not wish to give it for some reason.

To counter this, the researcher emphasised the importance of the study to the respondents. The researcher appealed to the respondents and discouraged them from using other people to answer the questionnaires for them. The researcher assured the respondents of anonymity thus enabling them to answer questions without any fear since they did not have to write their names on the questionnaire. This was done in order to avoid withholding of information.

3.8 Pilot study

Wilson (2010) refers to a pilot study as “a small-scale study that is carried out prior to the main survey”. The questionnaire was administered to a small group of five people at the RCC. Valuable information was obtained from the exercise, which resulted in the opportunity to refine the questionnaire. This information included the refining of certain questions which could have been possibly misunderstood and the elimination of unnecessary questions. The validity and reliability of the research instrument was confirmed through conducting a pilot test. The pilot test was conducted with five questionnaires and data of the financial year from 2007/8.

3.9 Administration

Permission to conduct research on the company was sought from the company. After permission was granted, the researcher recorded the contact details i.e. telephone numbers
and emails of all the participants. Thereafter, structured questionnaires were forwarded to them via emails. Follow ups and notifications were made via phone calls. Participants were required to email back the questionnaires in PDF format. The study covered the month of March 2017. Respondents were given two (2) weeks to complete the questionnaires and return them to the researcher via email. Completed questionnaires were stored in a lockable office on a desktop computer at the RCC until all were received and data analysis started.

3.10 Data Analysis
Primary data was analysed using descriptive methods of analysing and interpreting data. Descriptive statistics using graphs and tables was used to present and summarize data in a visual manner in the distribution of scores and to determine the typical scores of independent variables such as the nature of the business, length of operating cycle, availability of raw material, operating efficiency etc. Secondary data was analysed using ratio analysis. Financial ratios are powerful and widely used tools to analyse the financial condition and performance of the firm. Financial ratios such as the liquidity ratios and efficiency ratios were analysed to determine the efficiency of working capital management.

3.11 Credibility
Wolverton (2009:372) states that “...because threats to reliability and validity erode credibility. Credible research and valuation-related opinions are more likely to occur when analysts understand and assess the extent to which the methods employed were both reliable and valid”.
3.12 Validity
The pilot study as described above attempted to ensure consideration was given that the questionnaire measured data which was supposed to be measured. The sampled participants were informed in writing that information collected will remain anonymous. Participants from the pilot study assessed the questionnaires in terms of face validity and the fact that the sample was restricted to employees of the RCC only. This has also assisted with ensuring validity.

3.13 Reliability
Reliability refers to the repeatability of findings. Pilot participants, (experts), indicated that similar results could be expected if they had to complete the same questionnaire soon after the research exercise and conditions have not changed. The questionnaire contained closed-ended questions, requiring the respondents to choose the most appropriate choice. The questionnaires also displayed consistency of responses.

3.14 Elimination of Bias
The research instrument was developed with the main intention to collect information in order to address the research questions and was in line with the research objectives. All directorates (divisions) were included in the population without any individual exceptions such as gender, race, age or any other diversity.

3.15 Ethical Considerations
Farquhar (2012) states that “all participants in the research process should feel that the research has, at the very least, caused no harm”. The dignity and integrity of the research process should be protected by the researcher at all times.
3.15.1 Informed Consent

Respondents were provided with an overview of the study being carried out. Cooper and Schindler (2014) state that “securing informed consents from participants means that the participants are fully informed on the procedures of the proposed study before requesting permission to proceed with the study”. Participation of respondents was absolutely voluntary and respondents were not coerced into participation.

3.15.2 Protection of Participants

Cooper and Schindler (2014) further state that “the research study must be designed in a way that ensures that the participants do not suffer physical harm, discomfort, pain, embarrassment or loss of privacy”. The RCC’s policies, rules and regulations were adhered to during the entire research study and all respondents and their opinions were treated with the necessary respect.

3.15.3 Confidentiality and Anonymity

The results and outcome of the interviews and questionnaires conducted in the research process were treated as confidential and was considered as participant’s right to privacy. The source of authorship or anonymity of participants was maintained, respected and was not disclosed.

3.15.4 Permission Obtained

The accountability for the RCC is the responsibility of the CEO and written consent to undertake the research was obtained from the Corporate Communications Office. The CEO himself approved and signed-off the permission letter.
The identities of individuals and financial records of the company will be maintained as confidential. The data will then be destroyed after a period of five years. Participants were free to withdraw or refuse to partake in the research process. Bryman and Bell (2007) stated that; “the principle of informed consent also entails the implication that, even when people know they are being asked to participate in research, they should be fully informed about the research process”. The invasion of privacy will be viewed to the degree that the researcher does not intrude on the respondent’s privacy nor abandon normal respect for a company’s values.

**3.16 Summary**

This chapter covered the research design and methodology, incorporating the research philosophy, population, sample size and the sampling strategy. Again, the research instrument was discussed, the pilot study, data collection and analysis. Finally, the researcher also incorporated the validity, reliability and ethical considerations.
CHAPTER FOUR

RESULTS AND DISCUSSION

4.1. Introduction

The previous chapter looked at the research methodology that was employed in this study and the sampling methods used. This chapter highlights and presents the findings of the research to produce meaning and knowledge. It covers data presentation and analysis. The researcher took time to clearly present data and the results using various data presentation tools and techniques such as graphs, tables and financial ratios. The primary data analysis of this study was based on the number of questionnaires that were answered and completed. Those answered questionnaires made up 100% of the study sample. The secondary data analysis of this study was based on the most recent printed financial statements of the years 2007/2008 – 2010/2011. Thus, the findings of the research data were analysed, interpreted and presented as numbers and percentages.

The chapter begins by presenting the demographic statistics of the research sample. It then goes on to present the findings for each item on the questionnaire, and then the findings of the financial ratios. This section also contains the analysis of working capital management techniques, the policy framework for handling cash, inventory, accounts receivables and account payables, and the challenges in managing the working capital of the Roads Contractor Company Limited. It discusses the policy guidelines for working capital management and it also seeks to measure the effectiveness of these policies.

This chapter further discusses results of the research work under the following headings:
Background information of respondents

Perceived factors affecting the efficiency of Working Capital Management at RCC

Working capital at the RCC Company.

Current Ratio (Working Capital Ratio)

Quick Ratio (Acid Test Ratio)

Cash Ratio

Account Receivable Turnover (ART)

Asset Turnover Ratio (ATR)

Inventory Turnover Ratio (ITR)

Accounts Payable Turnover Ratio

Challenges

4.2 Primary Data Analysis

The aim of collecting primary data was to establish respondents’ perceptions on the factors affecting the efficiency of working capital management at the company and use the data gathered to determine the picture and ultimately draw conclusions pertaining to the management of working capital at the RCC. The data was captured and analysed using the SPSS computer statistical software.
Some of the data gathered is based on the Likert scale outlined below:

Table 4.1: Likert Scale

<table>
<thead>
<tr>
<th>SA = Strongly Agree</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>A = Agree</td>
<td>4</td>
</tr>
<tr>
<td>U = Undecided/ Neutral</td>
<td>3</td>
</tr>
<tr>
<td>DA = Disagree</td>
<td>2</td>
</tr>
<tr>
<td>SD = Strongly Disagree</td>
<td>1</td>
</tr>
</tbody>
</table>

4.2.1 Background Information of Respondents

Figure 4.1: Gender

According to the research results shown above, it shows that the majority of the respondents were female. This could be attributed to the fact that their male colleagues were not free to take part in the research or due to the fact that they were not keen to divulge information about the organisation.

*Figure 4.2: Age-Groups*

The chart above indicates that many of the respondents’ age group was from the early thirties and up to early forties. This could be due to their understanding of the operations and day to day running of the organization as they might have been engaged with the entity for a long time as compared to those in the twenties. There is a clear indication that those in the retirement age were very few, this could be simply because the organization was following the outlined rules and maintaining their commitment to recruit the young generation and let them get guidance from the few who will be in their retirement age of 60 and above, but still willing to give training, coaching and mentoring to the young generation before leaving the organization.
Figure 4.3: Level of Education

Source: Research Results (2017).

The research results shows us that the majority of the respondents who took part have reached the diploma level of education, with a small number having undergone graduate studies and were degree holders. There were very few postgraduate cadres. This could be attributed to the lack of resources to continue with studies or lack of interest to upgrade their educational qualification. This can also be a setback in the way the organization will
be operating as there will be no one who will be qualified enough to reason on ways to implement sound ideas of operation.

Figure 4.4: Tenure

Source: Research Results (2017).

As seen on the research results above, the majority of the respondents (50%) have been working at RCC for almost twenty (20) years. This could be seen as a good thing since they will be retaining their skilled personnel, but in the future, it can be an obstacle since
they will not be having many skilled personnel who would have the capacity to champion success in the organisation through change management, assuming that the majority were above the ages of 40-50 years and that they did not have postgraduate qualifications. Only five percent (5%) showed that they were relatively new recruits who have been with the organization for about five (5) years or less.

Figure 4.5: Job Level and Categories

Source: Research Results (2017).

Supervisors showed more interest in responding to the research questions as indicated by
the research results above. They are followed-suit by junior management and the least number of participants were senior executives, where only about six-percent (6%) took part in the research. This could be because the supervisors had much to disclose or felt they could be able to express themselves fully and the management was not keen to do the same fearing for retribution and/or victimisation should the results not sound positive to the management.

4.2.2 Perceived Factors Affecting the Efficiency of Working Capital Management at RCC

Factors affecting the working capital management at RCC are presented on a 5-point Likert scale as follows: SA = Strongly Agree; A = Agree; U = Undecided; DA = Disagree; SD = Strongly Disagree. Respondents were required to tick only one option per statement.

The results reflected in table 4.2 shows that the majority of the respondents agrees that there is a longer period between the purchases of raw material and the completion of projects at RCC, hence capital remains invested in raw materials for a long period. The results indicate that 20.93% of the respondents strongly agree, 37.21% agree, whilst 20.93% remain undecided, 16.28% disagree and 4.65% strongly disagree. The results in table 4.2 further shows that the majority of the respondents agrees that RCC’s business requires high capital to run the projects. This is evident as 55.81% of the respondents strongly agree, 32.56% agree whilst 4.65% remain undecided and 6.98% disagree.
Table 4.2: Responses on Nature of Business (n=43)

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nature of Business</strong></td>
<td>9</td>
<td>16</td>
<td>9</td>
<td>7</td>
<td>2</td>
<td>43</td>
</tr>
<tr>
<td>There is a longer period between the purchases of raw materials (fuel,</td>
<td>(20.93%)</td>
<td>(37.21%)</td>
<td>(20.93%)</td>
<td>(16.28%)</td>
<td>(4.65%)</td>
<td>(100%)</td>
</tr>
<tr>
<td>bitumen, cement, stones etc.) and completion of projects hence capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>remains invested in raw material for a long period.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The nature of the business is such that high capital is required to run</td>
<td>24</td>
<td>14</td>
<td>2</td>
<td>3</td>
<td>0</td>
<td>43</td>
</tr>
<tr>
<td>the projects</td>
<td>(55.81%)</td>
<td>(32.56%)</td>
<td>(4.65%)</td>
<td>(6.98%)</td>
<td>(100%)</td>
<td></td>
</tr>
</tbody>
</table>

According to Rani, (2013), transport, electricity, water and other public utilities require relatively lower working capital while trading and industrial require more working capital.
because they have to keep adequate stock, cash and debtors. The RCC has an industrial nature of business and from the responses it takes a lot of time to covert raw material into finished goods. Therefore, capital remains invested for a long time in raw material and semi-finished goods consequently, requiring more working capital. The results validate the theoretical proposition.

Table 4.3: Responses on scale of operations (n=43)

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scale of operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RCC has a large scale of operations</td>
<td>14</td>
<td>17</td>
<td>6</td>
<td>6</td>
<td>0</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(32.56%)</td>
<td>(39.53%)</td>
<td>(13.95%)</td>
<td>(13.95%)</td>
<td>(100%)</td>
<td></td>
</tr>
<tr>
<td>There is a lot of projects running concurrent and require more working capital</td>
<td>11</td>
<td>22</td>
<td>5</td>
<td>5</td>
<td>0</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(25.58%)</td>
<td>(51.16%)</td>
<td>(11.63%)</td>
<td>(11.63%)</td>
<td>(100%)</td>
<td></td>
</tr>
</tbody>
</table>

The majority of the respondents indicated that the RCC has a large scale of operations. This is supported by the fact that 32.56% of the respondents strongly agrees with the statement and 39.53% agree. 13.95% of the respondents are undecided and the remaining 13.95% disagree. Similarly, the majority of the respondents indicate that there is a lot of projects running concurrent as 25.58% strongly agree with the statement, 51.16% agree, 11.63% remain undecided and 11.63% disagree. According to the “conceptual framework of working capital management”, generally a firm with a large scale of operations requires a large amount of working capital than a firm with a small scale of operations.
<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Cycle</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The need for working capital is influenced by various stages of the business cycle e.g. during rainy seasons more working capital may be required as a result of increased work/projects</td>
<td>10</td>
<td>26 (60.47%)</td>
<td>3 (6.98%)</td>
<td>3 (6.98%)</td>
<td>1 (2.33%)</td>
<td>43 (100%)</td>
</tr>
<tr>
<td>The working capital requirement is always made available in accordance with changing demand</td>
<td>2 (4.65%)</td>
<td>10 (23.26%)</td>
<td>10 (23.26%)</td>
<td>20 (46.51%)</td>
<td>1 (2.33%)</td>
<td>43 (100%)</td>
</tr>
</tbody>
</table>

The results in table 4.4 above show that 23.26% of the respondents strongly agree and
60.47% agrees that the need of working capital is influenced by various stages of the business cycle such as rainy seasons. 6.98% are undecided, 6.98% disagree and 2.33% strongly disagree with the statement. The results further show that the majority of the respondents have a negative feeling about the company’s response with regards to availing working capital in accordance with the changing seasonal demand. 46.51% of the respondents disagree, 2.33% strongly disagree, 23.26% are neutral, 23.26% agrees and 4.65% strongly agrees. The higher number of respondents have negative feelings about the way the company responds to seasonal demands. According to the theoretical framework, a firm may follow a steady production policy whereby even in low working capital demand seasons, the company will accumulate inventories to the high working capital demand in peak seasons. However, this does not seem to be the practice at the RCC as working capital is not made available irrespective of the change in demand. The theory propose that a company may follow a policy of varying its production schedule in accordance with the changes in demand.

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seasonal factors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Some projects runs throughout the year (s) while others are only available for a short period e.g. few months or weeks</td>
<td>5</td>
<td>23</td>
<td>8</td>
<td>7</td>
<td>0</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(11.63%)</td>
<td>(53.49%)</td>
<td>(18.6%)</td>
<td>(16.28%)</td>
<td>(100%)</td>
<td></td>
</tr>
</tbody>
</table>
From the results in table 4.5 above, it shows that RCC’s business operations fluctuate. Meaning some construction projects run throughout the year and some are only available for a short period of time. 11.63% of the respondents strongly agrees, 53.49% agree whilst 18.6% remain undecided and 16.28% disagree with the statement. It is highly possible that RCC experiences challenges with availing working capital for short-term projects as each project may have different specifications in terms of funding for raw materials, equipment, skills & labour, which may not carry over to the next short-term project. According to the literature review, goods and services that have uniform demand throughout the year tend to require less working capital (“Conceptual framework of working capital management”).

Table 4.6: Responses on production cycle (n=43)

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Processing of raw materials (haulages, compacting, blading, bitumen etc.) takes too long resulting in delayed completions of work and delayed payments</td>
<td>7</td>
<td>17 (39.53%)</td>
<td>10 (23.26%)</td>
<td>7 (16.28%)</td>
<td>3 (6.98%)</td>
<td>43 (100%)</td>
</tr>
</tbody>
</table>
The results show that 39.53% of the respondents agreed that the production cycles at the RCC are too long, and that results in delayed completion of work and payment. This was supported by 16.28% who strongly agree that the processing of raw materials takes too long, resulting in delayed completion of work and delayed payments. The production of RCC is the processing of raw materials which includes hauling, compacting, blading, bitumen etc. Of the remaining respondents, 23.26% were neutral, whilst 16.28% disagree and 6.98% strongly disagree that the production cycle does not take too long resulting in delayed completion of work and payment. The results validate the theoretical proposition that the longer the cycle, the larger the amount of working capital required due to the fact that working capital remains tied up in inventory and work-in-progress, as longer manufacturing time blocks money in the purchase of raw material and other supplies, labour and service costs for long periods before the finished product is finally obtained (“Conceptual framework of working capital management”).

This means that more needs to be done to ensure that the production cycles are not long in order to complete work at the earliest possible time and subsequently receive payment at the earliest possible time.
Table 4.7: Responses on credit allowed (n=43)

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>RCC has a strict (cash basis payments) or short term credit policy with customers</td>
<td>1</td>
<td>11</td>
<td>10</td>
<td>14</td>
<td>7</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(2.33%)</td>
<td>(25.58%)</td>
<td>(23.26%)</td>
<td>(32.56%)</td>
<td>(16.28%)</td>
<td>(100%)</td>
</tr>
</tbody>
</table>

The results above show that 32.56% of the respondents disagree and 16.28% strongly disagree that the RCC has a strict cash basis payments or short term credit policy with customers. The results also show that 23.26% remain undecided whilst 25.58% agree and 2.33% strongly agree that the company has a strict cash basis or short term credit policy with customers. The results indicate that the RCC does not have a strict credit policy with its customers.

According to Rani (2013), a liberal credit looking without rating the credit worthiness of the customers will lead to unnecessary tying up of funds in the book debts, equally slow debt collection procedures can increase bad debts in a firm. He concluded that a strict credit policy will raise the level of working capital. The RCC needs to have a strict or short term credit policy with its customers in order to enhance its working capital.
Table 4.8: Responses on credit availed (n=43)

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>RCC has good standing credit facilities with suppliers, hence diesel,</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>20</td>
<td>22</td>
<td>43</td>
</tr>
<tr>
<td>bitumen, cement and other raw materials are easily available</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(2.33%) (46.51%) (51.16%) (100%)

The results in table 4.8 above show that 51.16% of the respondents strongly disagree that the RCC has good standing credit facilities with suppliers. This was supported by 46.51% who also disagree that the company has good standing credit facilities with suppliers. 2.33% of the respondents remains undecided. The results indicate that the company does not have good relationship with creditors, hence no credit is availed.

Mathuva (2010) found that firms can create value for their shareholders by reducing the number of day’s accounts receivable and by increasing their inventories to a reasonable level as well as take long to pay their creditors in as far as they do not strain their relationships with these creditors. The RCC needs to improve its relationship with suppliers in order to have credit availed, which will allow it to easily access diesel, bitumen, cement and other raw materials and services it requires for operations. Less or no credit availed means the company needs to have cash readily available every time it needs to purchase, hence a large amount of working capital will be required.
Table 4.9: Responses on operating efficiency (n=43)

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating efficiency</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RCC completes projects at the earliest and receive payments at the earliest</td>
<td>0</td>
<td>1</td>
<td>8</td>
<td>19</td>
<td>15</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(2.33%)</td>
<td>(18.6%)</td>
<td>(44.19%)</td>
<td>(34.88%)</td>
<td>(100%)</td>
<td></td>
</tr>
<tr>
<td>RCC successfully controls its operating costs, thereby achieving optimum utilization of the company resources at minimum costs</td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>20</td>
<td>17</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(13.95%)</td>
<td>(46.51%)</td>
<td>(39.53%)</td>
<td>(100%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The results in table 4.9 above show that the RCC has less operating efficiency as 44.19% of the respondents disagree that the company completes projects at the earliest and receive payments at the earliest. This was supported by 34.88% who also felt that the company does not complete projects on time and receive payment on time. Moreover the findings indicate that 46.51% of the respondents felt that the RCC does not successfully control its operating costs and does not achieve optimum utilization of the company resources at minimum costs. This was further supported by 39.53% who also strongly disagreed that the RCC successfully controls its operating costs. 13.95% of the respondents had neutral feelings about how the company controls its operating costs. Previous results show that
the RCC has a large production cycle and this has subsequently lead to its operation inefficiency. The results above show that the company does not complete projects on time and it does not adequately control its operating costs. The results validate the theoretical proposition that says “the longer the cycle, the larger the amount of working capital required due to the fact that working capital remains tied up in inventory and work-in-progress”. The longer manufacturing time blocks money in the purchase of raw material and other supplies, labour and service costs for long periods before the finished product is finally obtained (“Conceptual framework of working capital management”). It is evident from the results that operating efficiency at the RCC is a huge concern and much is needed to be done in order to improve the company’s operating efficiency.
Table 4.10: Responses on inventory management (n=43)

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inventory Management</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large amount of raw material/stock (e.g. diesel, cement, bitumen, grader</td>
<td>3</td>
<td>4</td>
<td>9</td>
<td>20</td>
<td>7</td>
<td>43</td>
</tr>
<tr>
<td>blades etc.) is kept on hand for a long time before it is used.</td>
<td>(6.98%)</td>
<td>(9.3%)</td>
<td>(20.93%)</td>
<td>(46.51%)</td>
<td>(16.28%)</td>
<td>(100%)</td>
</tr>
<tr>
<td>The company has correct approaches to managing levels of inventory.</td>
<td>0</td>
<td>5</td>
<td>9</td>
<td>21</td>
<td>8</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(11.63%)</td>
<td>(20.93%)</td>
<td>(48.84%)</td>
<td>(18.6%)</td>
<td>(100%)</td>
<td></td>
</tr>
<tr>
<td>There is always sufficient inventory available</td>
<td>0</td>
<td>2</td>
<td>9</td>
<td>18</td>
<td>14</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(4.65%)</td>
<td>(20.93%)</td>
<td>(41.86%)</td>
<td>(32.56%)</td>
<td>(100%)</td>
<td></td>
</tr>
<tr>
<td>Some inventory (diesel, cement, bitumen etc.) is overstocked that becomes</td>
<td>1</td>
<td>7</td>
<td>8</td>
<td>17</td>
<td>10</td>
<td>43</td>
</tr>
<tr>
<td>obsolete without being used.</td>
<td>(2.33%)</td>
<td>(16.28%)</td>
<td>(18.6%)</td>
<td>(39.53%)</td>
<td>(23.26%)</td>
<td>(100%)</td>
</tr>
</tbody>
</table>

The management of inventory also seems to be affecting the efficiency of working capital management at the RCC. This is indicated by 48.84% of the respondents who felt that the company does not have correct approaches to managing the levels of inventory and it is
further supported by 18.6% who also felt that the company does not have correct approaches to address the stock levels. 41.86% of the respondents disagreed and 32.56% strongly disagreed that the company always have sufficient stock available. 20.93% chose to remain neutral and 4.65% agreed that there is always sufficient inventory available. The analysis above is supported by 46.51% of the respondents who disagreed and 16.28% strongly disagreed that large amount of stock is kept on hand for long periods before it is used. Further, 39.53% disagreed and 23.26% strongly disagreed that inventory is overstocked and becomes obsolete without being used. The results imply that the company needs to have sufficient working capital to ensure sufficient stock levels and the company needs to have correct approaches to managing inventory.

The primary goal of inventory management is to maintain the best required level of inventory so that the production team or sales team can make or sell the company’s products (CFA Institute, 2016). If too much unwanted inventory is kept on hand, it is a liability because funds keep on being tied in stock without generating other income, however if inventory kept is of use, then it’s an asset. According to Gupta and Gupta (2012), the objective of inventory management is to maintain an optimum level of inventory at the right place with minimum costs to avoid stock outs. Makori and Jagongo (2013) found a positive relationship between profitability and the number of days of inventory and concluded that management should increase their inventories to a reasonable level.
Table 4.1: Responses on growth prospects (n=43)

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>RCC has sufficient possibilities and the means of undertaking various</td>
<td>3</td>
<td>22</td>
<td>8</td>
<td>5</td>
<td>5</td>
<td>43</td>
</tr>
<tr>
<td>roads and related construction projects</td>
<td>(6.98%)</td>
<td>(51.16%)</td>
<td>(18.6%)</td>
<td>(11.63%)</td>
<td>(11.63%)</td>
<td>(100%)</td>
</tr>
</tbody>
</table>

The information presented in table 4.1 above indicates more growth prospects for the RCC as 51.16% of the respondents agreed that the company has sufficient possibilities and the means of undertaking various road and related construction projects. This is further supported by 6.98% who strongly agreed that the company has sufficient possibilities for growth. More growth prospects would therefore mean that the company requires more working capital.
Table 4.12: Responses on level of competition (n=43)

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of competition</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RCC has high level of competition that it requires more funds/credit for quick completion of projects.</td>
<td>21</td>
<td>14</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(48.84%)</td>
<td>(32.56%)</td>
<td>(6.98%)</td>
<td>(6.98%)</td>
<td>(4.65%)</td>
<td>(100%)</td>
</tr>
</tbody>
</table>

Given the large scale of operations of the RCC, it is evident that the company also has a high level of competition that requires sufficient working capital to ensure timely service delivery. The results above show that 48.84% strongly agreed and 32.56% agreed that RCC has a high level of competition and requires more funds or credit for quick completion of projects. 6.98% of the respondents chose to remain undecided, whilst another 6.98% disagreed and 4.65% strongly disagreed that RCC has high level of competition.
Table 4.13: Responses on inflation (n=43)

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inflation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The increase in Suppliers’ prices increases the level of cash required for operations</td>
<td>21</td>
<td>20</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(48.84%)</td>
<td>(46.51%)</td>
<td>(2.33%)</td>
<td>(2.33%)</td>
<td></td>
<td>(100%)</td>
</tr>
</tbody>
</table>

The study results show that inflation is also one of the factors perceived to negatively affect the efficiency of working capital management at the RCC. 48.84% of the respondents strongly agreed and 46.51% also agreed that the increase in suppliers’ prices increase the level of cash required for operations.
Table 4.14: Responses on liquidity (n=43)

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liquidity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RCC has ready cash balances which is available in bank accounts resulting from payment collections, investment income, and other cash flows</td>
<td>0</td>
<td>2</td>
<td>5</td>
<td>12</td>
<td>24</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(4.65%)</td>
<td>(11.63%)</td>
<td>(27.91%)</td>
<td>(55.81%)</td>
<td>(100%)</td>
</tr>
<tr>
<td>The company’s cash flow management is effective</td>
<td>1</td>
<td>5</td>
<td>8</td>
<td>20</td>
<td>9</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(2.33%)</td>
<td>(11.63%)</td>
<td>(18.6%)</td>
<td>(46.51%)</td>
<td>(20.93%)</td>
<td>(100%)</td>
</tr>
<tr>
<td>The company’s cash flow management is decentralized</td>
<td>1</td>
<td>8</td>
<td>2</td>
<td>19</td>
<td>13</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(2.33%)</td>
<td>(18.6%)</td>
<td>(4.65%)</td>
<td>(44.19%)</td>
<td>(30.23%)</td>
<td>(100%)</td>
</tr>
</tbody>
</table>

The results in table 4.14 above show respondents’ feelings about the liquidity position of RCC. 55.81% of the respondents strongly feel that the company does not have ready cash.
balances available in the bank accounts resulting from payment collections, investment income and other cash flows. While 27.91% of the respondents also support that the company does not have ready cash available, 46.51% felt that the company’s cash flow management is not effective. 20.93% also strongly felt that the company’s cash flow management is ineffective whilst 18.6% chose to remain undecided. Only 13.96% felt that the company’s cash flow management is effective. Further, the study has also revealed that the company’s cash flow management is not decentralized.

Liquidity is the extent to which a company is able to meet its short-term obligations using assets that can be readily transformed into cash. Liquidity management refers to the ability of a firm to generate cash when and where it is needed, such as being able to pay bills and continue with operations (CFA Institute, 2016). From the results above, the RCC does not have readily cash available and is unable to generate cash when and where it’s needed.
Table 4.15: Responses on accounts receivable (n=43)

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer’s invoices and other records are accurate and up to date</td>
<td>3</td>
<td>5</td>
<td>10</td>
<td>21</td>
<td>4</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(6.98%)</td>
<td>(11.63%)</td>
<td>(23.26%)</td>
<td>(48.84%)</td>
<td>(9.3%)</td>
<td>(100%)</td>
</tr>
<tr>
<td>Customers’ records are properly controlled and monitored to ensure timely collection of payments</td>
<td>2</td>
<td>12</td>
<td>7</td>
<td>18</td>
<td>4</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(4.65%)</td>
<td>(27.91%)</td>
<td>(16.28%)</td>
<td>(41.86%)</td>
<td>(9.3%)</td>
<td>(100%)</td>
</tr>
<tr>
<td>Customers pay their accounts on time and within the credit terms</td>
<td>0</td>
<td>2</td>
<td>8</td>
<td>22</td>
<td>11</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(4.65%)</td>
<td>(18.6%)</td>
<td>(51.16%)</td>
<td>(25.58%)</td>
<td>(25.58%)</td>
<td>(100%)</td>
</tr>
</tbody>
</table>

Table 4.15 above depicts that 48.84% of the respondents disagreed that customers’ invoices and other records are accurate and up to date. This is supported by 9.3% who also
strongly disagreed that the customers’ invoices and other records are accurate and up to date. 23.26% of the respondents were undecided. The results also show that 41.86% of the respondents disagreed that customers’ records are properly controlled and monitored to ensure timely collection of payments. 9.3% also felt that the customers’ records are not properly monitored whilst 16.28% remained undecided. 32.56% of the respondents felt that customers’ records are properly controlled and monitored and timely collection of payment is ensured. The findings of the research further show that 51.16% of the respondents indicated that customers do not pay their accounts on time and within the credit terms. This was supported by 25.58% who also strongly feel that customers do not pay their accounts on time. The study results of accounts receivable management at the RCC are alarming. Lack of proper accounts receivable management can negatively affect the capital required to fund the day to day operations.

Accounts receivables are trade credits that result from the sale of goods and services. According to Bankapure (2012), account receivables are the outcomes of rapid growth of credit sales granted by the firm to their customers and form an important position of the current assets of a firm. Accounts receivable management means making decisions related to the investment in current assets as an integral part of the operating process, the objective being maximization of returns on the investment in receivables (Bankapure 2012). If not properly managed, accounts receivables can reduce profitability and liquidity. According to Bankapure (2012) the goals of the accounts receivable management systems are:
1. Efficient processing and maintaining accurate, up-to-date records that are available to credit managers and other interested parties as soon as possible after payment has been received.

2. Control of account receivable and ensuring that accounts receivable records are correct.

3. Collection on accounts and coordination with the treasury management function.

Accounts receivable management is an integral component of working capital management hence the RCC needs to ensure that the goals of the accounts receivable management system are attained at all times. Failure to have proper accounts receivable systems in place would negatively affect the company’s liquidity and subsequently its working capital.

Table 4.16: Responses on accounts payable (n=43)

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>RCC has good relationships with its suppliers</td>
<td>2 (4.65%)</td>
<td>1 (2.33%)</td>
<td>5 (11.63%)</td>
<td>14 (32.56%)</td>
<td>21 (48.84%)</td>
<td>43 (100%)</td>
</tr>
<tr>
<td>RCC pays its creditors on time and within the required number of days</td>
<td>1 (2.33%)</td>
<td>1 (2.33%)</td>
<td>2 (4.65%)</td>
<td>14 (32.56%)</td>
<td>25 (58.14%)</td>
<td>43 (100%)</td>
</tr>
</tbody>
</table>
The study results above indicates that the majority of the respondents felt that RCC does not have good relationship with its suppliers as 48.84% of the respondents strongly disagreed and 32.56% disagreed that the company has good relation with its suppliers. 58.14% of the respondents further strongly disagreed that RCC pays its creditors on time and within the required number of days. The results were supported by 32.56% who also disagreed that RCC pays its accounts on time.

Accounts payable arises from trade credit when goods and services are purchased from suppliers and payments for such goods and services are delayed (CFA Institute, 2016). Accounts payable management is the set of policies, procedures and practices put in place to efficiently control the accounts payable (CFA Institute, 2016). A key working capital link is the purchasing-inventory-payable process. If it is handled efficiently, the process minimizes access to funds in the pipeline, however if handled inefficiently funds remain tied up and reduce the company’s liquidity. From the results above, it is evident that RCC has failed to implement these sets of policies, procedures and practices in order to efficiently control the account payable. Moreover the credit availed was also negatively affected as a result of the company’s relationship with suppliers.

**Table 4.17: Responses on dividend policy (n=43)**

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dividend Policy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RCC’s Management follows a conservative dividend policy</td>
<td>1 (2.33%)</td>
<td>1 (2.33%)</td>
<td>19 (44.19%)</td>
<td>12 (27.91%)</td>
<td>10 (23.26%)</td>
<td>43 (100%)</td>
</tr>
</tbody>
</table>
The results above show that the majority of the respondents representing 44.19% opted to remain neutral on whether RCC management follows a conservative dividend policy. 27.91% indicated that the company management does not follow a conservative dividend policy and they were supported by 23.26% of the respondents who also felt that the company does not follow a conservative dividend policy. A conservative dividend policy would mean that the company would keep funds in reserves to invest or fund working capital when required.

Table 4.18: Responses on plant efficiency (n=43)

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Plant efficiency</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RCC successfully maintain its plants &amp; equipment to ensure positive effects on the need of working capital; e.g., equipment is well serviced and maintained or old equipment is regularly replaced with new equipment to reduce fuel consumption</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>14</td>
<td>25</td>
<td>43</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>
Table 4.18 above depicts that 58.14% of the respondents strongly disagreed that RCC successfully maintain its plant & equipment to ensure positive effects on the need of working capital. It is further supported by 32.56% who disagreed that RCC successfully maintain its plant & equipment. 6.98% of the respondents were undecided and 2.33% agreed that RCC successfully maintain its equipment. Proper maintenance of plant & equipment helps to reduce breakdowns and enhance efficiency. On the contrary, if plant & equipment is not properly maintained, chances of breakdowns and prolonged downing are high that will translate to high costs and inefficiency.

Table 4.19: Responses on economic impact (n=43)

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>DA</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation policy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Government tax policies influences the working capital decisions at RCC</td>
<td>10 (23.26%)</td>
<td>9 (20.93%)</td>
<td>12 (27.91%)</td>
<td>6 (13.95%)</td>
<td>6 (13.95%)</td>
<td>43 (100%)</td>
</tr>
</tbody>
</table>

Table 4.19 above shows that the majority of the respondents are not sure whether the taxation policy influences the working capital decisions at the RCC. 27.91% of the respondents chose to remain neutral on whether the government tax policies affects working capital management at the company. The results further show that 20.93% of the respondents agree and 23.26% strongly agree that the working capital decisions are also influenced by the taxation policies. 13.95% of the respondents disagree that the taxation policies have an influence on working
capital management and the remaining 13.95% also strongly disagreed. The taxation policies are standards and put in place for the government to collect revenue, hence should not have much influence on the management of working capital in a company.

4.3 Secondary Data Analysis
In order to determine the amount of working capital employed and the factors that are affecting the efficiency of working capital management at the RCC; Annual Financial Reports for the period ended 2007/08 – 2010/11 were used in this research to compute the working capital, liquidity ratios and efficiency ratios. The financial reports for the period ended 2007/08 – 2010/11 were used as they were the most recent published financials for the company.

4.3.1 Working capital at RCC
Firms use working capital management as a managerial accounting strategy which focuses on maintaining efficient levels of current assets and current liabilities to ensure that the firm has sufficient cash flow in order to meet its short-term obligations. Another name for working capital is net working capital (NWC) which is defined by the equation; (Net) working capital = Current assets − Current liabilities.

The tables 4.20 & 4.21 below shows RCC’s net working capital for the years 2007 – 2011, both at company and group level.
The analysis above shows that the RCC’s Net working capital at group level has been negative for the years 2007 to 2011, meaning the group has insufficient capital to run its day to day operations.

Table 4.20 Group Net working capital

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Assets</th>
<th>Current Liabilities</th>
<th>Net Working Capital (NWC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>168,739,336</td>
<td>339,157,307</td>
<td>-</td>
</tr>
<tr>
<td>2010</td>
<td>142,973,284</td>
<td>343,536,383</td>
<td>-</td>
</tr>
<tr>
<td>2009</td>
<td>117,599,823</td>
<td>314,223,727</td>
<td>-</td>
</tr>
<tr>
<td>2008</td>
<td>171,800,679</td>
<td>362,133,630</td>
<td>-</td>
</tr>
<tr>
<td>2007</td>
<td>119,383,169</td>
<td>284,333,928</td>
<td>-</td>
</tr>
</tbody>
</table>

The analysis above shows that the RCC’s Net working capital has also been negative at company level for the years under review, meaning the company also had insufficient capital to run its day to day operations.

Table 4.21 Company Net working capital

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Assets</th>
<th>Current Liabilities</th>
<th>Net Working Capital (NWC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>114,311,973</td>
<td>286,543,344</td>
<td>-</td>
</tr>
<tr>
<td>2010</td>
<td>64,461,940</td>
<td>269,190,901</td>
<td>-</td>
</tr>
<tr>
<td>2009</td>
<td>77,545,174</td>
<td>283,844,193</td>
<td>-</td>
</tr>
<tr>
<td>2008</td>
<td>127,352,921</td>
<td>331,274,508</td>
<td>-</td>
</tr>
<tr>
<td>2007</td>
<td>82,992,795</td>
<td>247,722,128</td>
<td>-</td>
</tr>
</tbody>
</table>

Raheman and Nasr (2007) found a significant negative relationship between net operating profitability and the average collection period, inventory turnover in days, average payment period and the cash conversion cycle for a sample of Pakistani firms listed on the Karachi Stock Exchange. Based on their analysis, they concluded that firms should manage their working capital in more efficient ways. Management of working capital means “management of current assets and current liabilities, and financing these current assets”. RCC needs to maintain a positive net working capital as opposed to its current status.

4.3.2 Liquidity Ratios

4.3.2.1 Current Ratio (Working Capital Ratio)

The current ratio which is also referred to as “working capital ratio” is a liquidity ratio that measures a firm’s ability to honour its short-term obligations with its current assets. The current ratio is being calculated by dividing the current assets with current liabilities;

\[
\text{Current ratio (Working capital ratio)} = \frac{\text{Current assets}}{\text{Current liabilities}}
\]

Current assets include all the assets like cash, cash equivalents & marketable securities because they can be converted into cash much quicker than the fixed assets, usually in less than a year. Current liabilities consist of the creditors, bills payable, accrued expenses, short-term loans, income tax liabilities and any liability maturing in the current year.

The tables 4.22 and 4.23 below presents RCC’s current ratio (working capital) for the years 2007 – 2011 respectively:
The results above show the current ratios of RCC for the years under review, at group level. At group level, the current ratio in the year 2007 was 0.42, 0.47 for the year 2008, 0.37 for the year 2009, 0.42 for the year 2010 and 0.50 for the year 2011. The results indicate that the group current ratio has been below 1 for all the years under review, hence RCC is unable to fully honour its obligations at group level.

Table 4.23 Company current ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Assets</th>
<th>Current Liabilities</th>
<th>Current Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>114,311,973</td>
<td>286,543,344</td>
<td>0.40</td>
</tr>
<tr>
<td>2010</td>
<td>64,461,940</td>
<td>269,190,901</td>
<td>0.24</td>
</tr>
<tr>
<td>2009</td>
<td>77,545,174</td>
<td>283,844,193</td>
<td>0.27</td>
</tr>
<tr>
<td>2008</td>
<td>127,352,921</td>
<td>331,274,508</td>
<td>0.38</td>
</tr>
<tr>
<td>2007</td>
<td>82,992,795</td>
<td>247,722,128</td>
<td>0.34</td>
</tr>
</tbody>
</table>


The results above show that the current ratio of RCC at company level has been below 1 for the years under review. At company level, the current ratio in the year 2007 was 0.34, 0.38 for the year 2008, 0.27 for the year 2009, 0.24 for the year 2010 and 0.40 for the year
The results is further presented in the graph below to give a better comparison between the current ratio of RCC at group and company level.

![Current Ratio Graph](image)

**Figure 4.6: RCC’s current ratio for the financial years 2007 – 2011.**

The results show that the current ratios of RCC for the years under review, both for the group and company has been below 1. In fact, the comparison between the group and the company shows that the movements in the figures correlates. Whenever the current ratio at group level increased, the same goes at company level and vice versa. The current ratio helps the creditors and investors to understand the liquidity of the company and how fast the company would be able to pay off its current liabilities when they become due. Current ratio was formerly called as a 2:1 ratio indicator, but these days its value between 1.3-1.7 is acceptable – depending on the sector (Veronika, Tibor and Peter, 2014). For the purpose of this research, the researcher analysed the current ratio in order to obtain a deeper understanding of RCC’s liquidity position. The results above show that the RCC is unable to honour its short-term obligations as its current ratio is below the required level of 2:1.
or rather the acceptable level of 1.3-1.7. This is a bad picture as it shows that the company is not making enough cash from its operations to support its activities.

4.3.2.2 Quick Ratio (Acid Test Ratio)

The acid test ratio helps to determine whether a firm is able to pay off its short-term liabilities with its quick assets. Quick assets are assets that can be converted into cash within a short period of time, usually less than 90 days. The acid test ratio is more significant compared to the current ratio in determining the firm’s ability to honour its due short-term obligations. The acid test is being derived as:

\[
\text{Quick ratio / Acid test ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}
\]

The tables 4.24 and 4.25 below presents RCC’s quick ratio (acid test ratio) for the years 2007 – 2011:

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Assets</th>
<th>Current Liabilities</th>
<th>Current Ratio</th>
<th>Quick/ Acid Test Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>168,739,336</td>
<td>339,157,307</td>
<td>27,390,765</td>
<td>0.42</td>
</tr>
<tr>
<td>2010</td>
<td>142,973,284</td>
<td>343,536,383</td>
<td>17,080,576</td>
<td>0.37</td>
</tr>
<tr>
<td>2009</td>
<td>117,599,823</td>
<td>314,223,727</td>
<td>13,055,102</td>
<td>0.33</td>
</tr>
<tr>
<td>2008</td>
<td>171,800,679</td>
<td>362,133,630</td>
<td>11,795,718</td>
<td>0.44</td>
</tr>
<tr>
<td>2007</td>
<td>119,383,169</td>
<td>284,333,928</td>
<td>13,270,767</td>
<td>0.37</td>
</tr>
</tbody>
</table>

The table above shows quick ratio of RCC at group level. The quick ratio at group level for the years 2007-2011 has been below 1. At group level, the quick ratio in the year 2007
was 0.37, 0.44 for the year 2008, 0.33 for the year 2009, 0.37 for the year 2010 and 0.42 for the year 2011. The results indicate that at group level, RCC is unable to pay off it short-term liabilities with its quick assets.

Table 4.25 Company Quick/ Acid test ratio

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>Current Assets</th>
<th>Current Liabilities</th>
<th>Current Ratio</th>
<th>Quick/ Acid Test Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>114,311,973</td>
<td>286,543,344</td>
<td>5,184,213</td>
<td>0.38</td>
</tr>
<tr>
<td>2010</td>
<td>64,461,940</td>
<td>269,190,901</td>
<td>9,761,022</td>
<td>0.20</td>
</tr>
<tr>
<td>2009</td>
<td>77,545,174</td>
<td>283,844,193</td>
<td>4,102,452</td>
<td>0.26</td>
</tr>
<tr>
<td>2008</td>
<td>127,352,921</td>
<td>331,274,508</td>
<td>2,305,260</td>
<td>0.38</td>
</tr>
<tr>
<td>2007</td>
<td>82,992,795</td>
<td>247,722,128</td>
<td>3,214,400</td>
<td>0.32</td>
</tr>
</tbody>
</table>


The table above shows quick ratio of RCC at company level. The quick ratio at company level for the years 2007-2011 has also been below 1. The trend analysis performed on RCC’s financial statements for the years under review shows that the quick ratio for the company for the year 2007 was 0.32, 0.38 for the year 2008, 0.26 for the year 2009, 0.20 for the year 2010 and 0.39 for the year 2011. The results indicate that also at company level, RCC is unable to pay off it short-term liabilities with its quick assets.
Just as with the current ratio, the researcher has observed a proportional trend in the movement of the quick ratio with the difference that the quick ratio at the Group level is higher than the Company level. The result however shows that the ratios at both levels remain below 1 in all the years under considerations. A quick ratio of less than 1 is not safe for any firm because it serves an indication that the company cannot settle its current obligations when they fall due, hence a sign of inefficiency.

4.3.2.3 Cash Ratio

The cash ratio is a liquidity ratio that measures a company’s ability to pay off its current liabilities with only cash and cash equivalents. This ratio is very important to creditors as it shows how much cash is readily available to pay off the current debts without taking inventory and accounts receivables into considerations as these may take time to convert into cash. The cash ratio is computed as follows;
The tables 4.26 and 4.27 below presents RCC’s cash ratio for the years 2007 – 2011:

**Table 4.26 Group’s Cash ratio**

<table>
<thead>
<tr>
<th>GROUP</th>
<th>Cash + Cash equivalents</th>
<th>Current liabilities</th>
<th>Cash Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>45,793,230</td>
<td>339,157,307</td>
<td>0.14</td>
</tr>
<tr>
<td>2010</td>
<td>16,994,022</td>
<td>343,536,383</td>
<td>0.05</td>
</tr>
<tr>
<td>2009</td>
<td>26,484,119</td>
<td>314,223,727</td>
<td>0.08</td>
</tr>
<tr>
<td>2008</td>
<td>59,064,140</td>
<td>362,133,630</td>
<td>0.16</td>
</tr>
<tr>
<td>2007</td>
<td>38,319,900</td>
<td>284,333,928</td>
<td>0.13</td>
</tr>
</tbody>
</table>

The results above show a cash ratio of RCC at group level for the years 2007 – 2011. The cash ratio at group level in the year 2007 was 13%, it rose to 16% in the year 2008. The group cash ratio then dropped to 8% in the year 2009 and further dropped to 5% in the year 2010 before it rose again to 14% in the year 2011. Table 4.27 Company’s Cash ratio

**Table 4.27 Company’s Cash ratio**

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>Cash + Cash equivalents</th>
<th>Current liabilities</th>
<th>Cash Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>33,222,054</td>
<td>286,543,344</td>
<td>0.12</td>
</tr>
<tr>
<td>2010</td>
<td>478,031</td>
<td>269,190,901</td>
<td>0.00</td>
</tr>
<tr>
<td>2009</td>
<td>19,376,082</td>
<td>283,844,193</td>
<td>0.07</td>
</tr>
<tr>
<td>2008</td>
<td>57,914,694</td>
<td>331,274,508</td>
<td>0.17</td>
</tr>
<tr>
<td>2007</td>
<td>38,172,559</td>
<td>247,722,128</td>
<td>0.15</td>
</tr>
</tbody>
</table>


The results above show the RCC’s cash ratio at company level for the years under review. The cash ratio at company level in the year 2007 was 15%, in the year 2008 it was 17% and then it drastically dropped to 7% in 2009 and further dropped to 0% in the year 2010.
before it rose again to 12% in 2011. The results are further analysed in the graph below for comparison between group and company cash ratios.

![Cash Ratio Graph](image)

**Figure 4.8: RCC’s Cash ratio for the financial years 2007 – 2011.**

The cash ratio both at group and company level remained below 1 in all the years under consideration. The graph shows that the cash ratio at company level was slightly above the cash ratio at group level between the year 2007 and 2008, before a drop in the cash ratio at company level in the years 2009 and 2010. There is basically nothing wrong with a low cash ratio as it’s never recommended for a firm to have idle cash without it being invested. Additionally, lack of cash in an organization that has access to borrowing facilities is considered not to be a threat.

According to the theoretical framework on liquidity management, liquidity ratios are calculated to measure the company’s ability to meet short-term obligations to creditors as
they mature or become due (CFA Institute, 2016). Liquidity analysis focuses on the relationship between current assets and current liabilities (CFA Institute, 2016). The greater the current ratio or the quick ratio, the higher the company’s liquidity (CFA Institute, 2016). Meaning the greater the current ratio or quick ratio, the greater the potential ability to cover the current liabilities. Smith as cited by Atseye, Ugwu and Takon, (2015), argues that management of working capital directly affects the liquidity and the profitability of the corporate firm and subsequently it’s net worth. Working capital therefore aims at maintaining an equilibrium between liquidity and profitability while conducting the day-to-day business operations.

4.3.3 Efficiency Ratios

In this research, the researcher has also analysed the efficiency ratios in order to understand RCC’s ability to use its assets and effectively manage its liabilities.

4.3.3.1 Accounts Receivable Turnover (ART)

ART is an efficiency ratio or activity ratio that measures how many times a firm can turn its accounts receivable into cash during a certain period. In other words the ART measures how many times a firm collects its average accounts receivable in a year. The more times a firm collects its accounts receivables the better, meaning the higher the accounts receivable turnover, the more efficient the company is. The ART is calculated by dividing the Net Sales with the average accounts receivable. Average accounts receivable is the average of the opening and closing balances of accounts receivable.
Average Accounts Receivable = (Account receivables at the beginning of the year +
Account receivables at end of the year) / 2.

\[
ART = \frac{\text{Net Sales}}{\text{Average Accounts Receivable}}
\]

The tables 4.28 and 4.29 below presents RCC’s Accounts Receivable Turnover for the
years 2008 – 2011:

**Table 4.28 Group Accounts Receivable Turnover**

<table>
<thead>
<tr>
<th>Year</th>
<th>Opening AR</th>
<th>Closing AR</th>
<th>Average AR</th>
<th>Net Sales (Net Contract Revenue)</th>
<th>ART</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>107,623,355</td>
<td>94,877,761</td>
<td>101,250,558</td>
<td>561,153,802</td>
<td>5.54</td>
</tr>
<tr>
<td>2010</td>
<td>81,593,048</td>
<td>107,623,355</td>
<td>94,608,202</td>
<td>505,326,181</td>
<td>5.34</td>
</tr>
<tr>
<td>2009</td>
<td>72,992,538</td>
<td>81,593,048</td>
<td>77,292,793</td>
<td>492,973,248</td>
<td>6.38</td>
</tr>
<tr>
<td>2008</td>
<td>53,154,431</td>
<td>72,992,538</td>
<td>63,073,485</td>
<td>377,714,974</td>
<td>5.99</td>
</tr>
</tbody>
</table>

The results above show that the RCC’s ART at group level has been fluctuating, with the
highest turnover of 6.38 recorded in 2009 and the lowest turnover of 5.34 recorded in
2010, whilst the accounts receivable turnover in 2008 is 5.99 and a turnover of 5.54 in
2011.

**Table 4.29 Company Accounts Receivable Turnover**

<table>
<thead>
<tr>
<th>Year</th>
<th>Opening AR</th>
<th>Closing AR</th>
<th>Average AR</th>
<th>Net Sales (Net Contract Revenue)</th>
<th>ART</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>53,440,808</td>
<td>75,701,654</td>
<td>64,571,231</td>
<td>388,011,365</td>
<td>6.01</td>
</tr>
<tr>
<td>2010</td>
<td>48,605,447</td>
<td>53,440,808</td>
<td>51,023,128</td>
<td>332,209,235</td>
<td>6.51</td>
</tr>
<tr>
<td>2009</td>
<td>39,684,206</td>
<td>48,605,447</td>
<td>44,144,827</td>
<td>368,544,259</td>
<td>8.35</td>
</tr>
</tbody>
</table>

The results at company level show that the ART has been dropping in each successive year. In 2008, the turnover at company level was 9.41, in the year 2009 the turnover was 8.35, in the year 2010 the turnover was 6.51 and a turnover of 6.01 in the year 2011.

![Accounts Receivable Turnover (ART)](image)

*Figure 4.9: RCC’s Accounts Receivable Turnover for the financial years 2008 – 2011.*

The dropping ART in each successive year signify the company’s need to improve the management of its account receivables.

The results above is confirmed by Deloof (2003), who discussed that most firms have large amounts of cash invested in working capital, as well as substantial amounts of short-term payables as a source of financing. Deloof (2003) further stated that it can be expected that the way in which working capital is managed will have a significant impact on the profitability of firms. Using correlation and regressing tests, the researcher found a
significant negative relation between gross operating income and the number of days accounts receivable, inventories, and accounts payable of Belgian firms. Based on the findings, he suggested that managers can create value for their shareholders by reducing the number of days accounts receivable and inventories to a reasonable minimum. The days accounts receivable indicates how many days a company takes to convert accounts receivable into cash thus, it represents an accounts receivable turnover in days as opposed to the accounts receivable turnover ratio in times (Gorczynska, 2011).

4.3.3.2 Asset Turnover Ratio (ATR)

ATR is an efficiency or activity ratio that measures how efficiently the company can generate sales from its assets. The asset turnover ratio calculates net sales as a percentage of assets to show how much sales is generated by utilizing each dollar invested in the company assets. A higher asset turnover ratio would mean a company is efficiently utilizing its assets to generate sales. The Asset Turnover Ratio is determined by diving the Net sales by the company’s average total assets.

\[
ATR = \frac{Net Sales}{Average Total Assets}
\]

The tables 4.30 and 4.31 below presents RCC’s Asset Turnover Ratio for the years 2007 – 2011:
Table 4.30 Group Asset Turnover Ratio

GROUP

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales</th>
<th>Average Total Assets</th>
<th>ATR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>561,153,802</td>
<td>421,502,096</td>
<td>1.33</td>
</tr>
<tr>
<td>2010</td>
<td>505,326,181</td>
<td>411,088,809</td>
<td>1.23</td>
</tr>
<tr>
<td>2009</td>
<td>492,973,248</td>
<td>407,568,459</td>
<td>1.21</td>
</tr>
<tr>
<td>2008</td>
<td>377,714,974</td>
<td>397,190,867</td>
<td>0.95</td>
</tr>
</tbody>
</table>

The table above shows RCC Asset Turnover Ratio at group level for the years 2008 to 2011. The results indicate a turnover ratio of 0.95 in 2008, 1.21 in 2009, 1.23 in 2010 and 1.33 in 2011. The results indicate a slight increase in the Group Asset Turnover Ratio.

Table 4.31 Company Asset Turnover Ratio

COMPANY

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales</th>
<th>Average Total Assets</th>
<th>ATR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>388,011,365</td>
<td>327,942,382</td>
<td>1.18</td>
</tr>
<tr>
<td>2010</td>
<td>332,209,235</td>
<td>322,129,796</td>
<td>1.03</td>
</tr>
<tr>
<td>2009</td>
<td>368,544,259</td>
<td>327,558,401</td>
<td>1.13</td>
</tr>
<tr>
<td>2008</td>
<td>316,114,597</td>
<td>323,213,802</td>
<td>0.98</td>
</tr>
</tbody>
</table>


The table above shows RCC Asset Turnover Ratio at company level for the years 2008 to 2011. The results indicate a turnover ratio of 0.98 in 2008, 1.13 in 2009, 1.03 in 2010 and 1.18 in 2011. The results also indicate a slight increase in the Company Asset Turnover Ratio.
The results above show that the RCC’s ATR at group level has been slightly increasing from the years 2008 to 2011, with the highest Asset Turnover Ratio of 1.33 in 2011 and the lowest Asset Turnover Ratio of 0.95 in 2008. The ATR at company level also increased from 0.98 in 2008 to 1.13 in 2009, before it dropped to 1.03 in 2010 and thereafter increased to 1.18 in 2011. From the results, it can be a signal that the RCC managed to reach a slight improvement in managing its assets, hence a slight increase in its Asset Turnover Ratio.

4.3.3.3 Inventory Turnover Ratio (ITR)

The Inventory Turnover Ratio is calculated by dividing the cost of goods sold by the average inventory. It is an efficiency or activity ratio that shows the number of times the inventory has been converted into sales over a certain period.

\[
ITR = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}
\]
The tables 4.32 and 4.33 below presents RCC’s Inventory Turnover Ratio for the years 2007 – 2011:

**Table 4.32 Group Inventory Turnover Ratio**

**GROUP**

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost of Goods Sold</th>
<th>Average Inventory</th>
<th>ITR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>254,915,993</td>
<td>22,235,671</td>
<td>11.46</td>
</tr>
<tr>
<td>2010</td>
<td>280,171,233</td>
<td>15,067,839</td>
<td>18.59</td>
</tr>
<tr>
<td>2009</td>
<td>267,292,462</td>
<td>12,425,410</td>
<td>21.51</td>
</tr>
<tr>
<td>2008</td>
<td>218,715,064</td>
<td>12,533,243</td>
<td>17.45</td>
</tr>
</tbody>
</table>

The results above show the inventory turnover ratio at group level for the years 2008 – 2011. The inventory turnover ratio for the year 2008 was 17.45%, 21.51% for 2009, 18.59% for 2010 and 11.46% for the year 2011. The turnover at group level is significantly low.

**Table 4.33 Company Inventory Turnover Ratio**

**COMPANY**

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost of Goods Sold</th>
<th>Average Inventory</th>
<th>ITR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>201,994,106</td>
<td>7,472,618</td>
<td>27.03</td>
</tr>
<tr>
<td>2010</td>
<td>191,877,291</td>
<td>6,931,737</td>
<td>27.68</td>
</tr>
<tr>
<td>2009</td>
<td>246,903,233</td>
<td>3,203,856</td>
<td>77.06</td>
</tr>
<tr>
<td>2008</td>
<td>198,353,935</td>
<td>2,759,830</td>
<td>71.87</td>
</tr>
</tbody>
</table>


The table above show a much higher inventory turnover at company level, of 71.87% in the year 2008 and a turnover of 77.06% in the year 2009 before a significant drop in the
turnover to 27\% in the years 2010 and 2011 respectively. The graph below shows comparison between the turnover at group level and company level.

Figure 4.11: RCC’s Inventory Turnover Ratio for the financial years 2008 – 2011.

The drop in the inventory turnover both at group and company level signify that inventory management at the RCC is handled inefficiently.

The results above is also confirmed by Deloof (2003), who discussed that most firms have large amounts of cash invested in working capital, as well as substantial amounts of short-term payables as a source of financing. Deloof (2003) further stated that it can be expected that the way in which working capital is managed will have a significant impact on the profitability of firms. Using correlation and regressing tests, the researcher found a significant negative relation between gross operating income and the number of days accounts receivable, inventories, and accounts payable of Belgian firms. Based on the
findings, he suggested that managers can create value for their shareholders by reducing the number of days accounts receivable and inventories to a reasonable minimum.

The number of days inventories indicate how many days a company takes to convert inventories into cash thus, it represents an inventory turnover in days as opposed to the inventory turnover ratio in times. Inventory Turnover Ratio measures how efficiently a company can control its inventory. It shows whether a company does/does not excessively buy stock and waste resources in storing and controlling unusable stock. This measure also shows the liquidity of the company’s inventory by indicating how easily the company’s inventory is turned into cash. It will be worthless for the company to have inventory in large amounts and standing for longer periods without generating any cash. The higher the inventory turnover, the better.

4.3.3.4 Accounts Payable Turnover Ratio

The accounts payable turnover ratio indicates the number of times the creditors have been paid in a year. A high accounts payable turnover ratio shows that the company pays its creditors punctually. On the other side, a favourable ratio indicated that the company is not fully utilizing the credit facilities being offered by the creditors. The accounts payable ratio is calculated by diving the trade credit purchases by average accounts payables.

\[
\text{Accounts Payable Turnover Ratio} = \frac{\text{Trade Credit Purchases}}{\text{Average Accounts Payable}}
\]
The tables 4.34 and 4.35 below presents RCC’s Accounts Payable Turnover Ratio for the years 2007 – 2011:

Table 4.34 Group Accounts Payable Turnover Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Trade payables</th>
<th>Purchases</th>
<th>APT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>86,618,240</td>
<td>244,605,804</td>
<td>2.82</td>
</tr>
<tr>
<td>2010</td>
<td>99,500,305</td>
<td>276,145,759</td>
<td>2.78</td>
</tr>
<tr>
<td>2009</td>
<td>84,155,158</td>
<td>266,033,079</td>
<td>3.16</td>
</tr>
<tr>
<td>2008</td>
<td>62,398,951</td>
<td>220,201,426</td>
<td>3.53</td>
</tr>
</tbody>
</table>

The results above show the RCC’s accounts payable turnover ratio at the group level of 3.53 in 2008, 3.16 in 2009, 2.78 in 2010 and 2.82 in 2011.

Table 4.35 Company Accounts Payable Turnover Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Trade payables</th>
<th>Purchases</th>
<th>APT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>35,029,774</td>
<td>198,430,965</td>
<td>5.66</td>
</tr>
<tr>
<td>2010</td>
<td>46,162,446</td>
<td>186,218,721</td>
<td>4.03</td>
</tr>
<tr>
<td>2009</td>
<td>64,217,605</td>
<td>245,106,041</td>
<td>3.82</td>
</tr>
<tr>
<td>2008</td>
<td>59,962,758</td>
<td>199,263,075</td>
<td>3.32</td>
</tr>
</tbody>
</table>


The results above present the RCC accounts payable turnover ratio for the years 2007 – 2011. The ratio at company level is 3.32 in 2008, 3.82 in 2009, 4.03 in 2010 and 5.66 in 2011.
Figure 4.12: RCC’s Accounts Payable Turnover Ratio for the financial years 2008 – 2011.

RCC has a higher accounts payable turnover ratio at the company level than it has at the group level. It is evident that the RCC has tried to maintain a moderate turnover ratio thereby fully utilizing the credit facility while maintaining the relationship with creditors. By delaying payment, companies can use the money for a longer period of time, thus lowering the need for other financing (Niklas and Viktor, 2014).

Mathuva (2010), conducted a survey on Kenyan Listed Firms. Based on his findings, he stated that the management of a firm can create value for their shareholders by reducing the number of days accounts receivable and by increasing their inventories to a reasonable level. Firms can also take long to pay their creditors in as far as they do not strain their relationships with these creditors. The findings by Mathuva (2010) confirms the researcher’s analysis that the RCC has tried to maintain a moderate turnover ratio while
fully utilizing the credit facilities. However, the RCC needs to maintain the good relationship with its creditors.

4.4 Challenges facing the company in terms of working capital management

The RCC’s major problem is lack of credit and delayed production resulting from logs shortage as well as excessive capital intensive nature of the business. It’s clear that the RCC’s has poor working capital management as production cycles are long and inefficient resulting in delayed completion of work and subsequently delayed payments. In addition the working capital is not always made available in accordance with the change in demand. From the results, the net working capital of RCC is negative, making it difficult for the company to meet its required obligations.

Lack of proper or strict credit policies allowed and proper accounts receivable management has resulted in the company-creditors relationship being negatively affected which further lead to insufficient inventory. The company failed to honor its obligations to creditors hence the accounts were closed. It is indicated that RCC does not adequately service or replace its machinery to ensure continuous uninterrupted operations and savings on factors that may negatively affect working capital such as high fuel consumption that may arise as a result of too old and not serviced machinery.

The results also indicates that the importance of working capital management at RCC is somehow downplayed as in some instances the majority of respondents remained
undecided or chose to remain neutral in airing their views on various aspects affecting the efficiency of working capital management.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The previous chapter dealt with the results and analysis, which consequently incorporated discussion of the findings. This chapter presents the summary of the study, the conclusions arrived at, and recommendations based on the findings of the study are provided. In order to carry out the research, forty three employees from the RCC were selected and interviewed through semi-structured questionnaires. The researcher further used financial ratios to perform an analysis of the financial statements of the RCC for the financial years ended 2007/08, 2008/09, 2009/10 and 2010/11. The main objective of the study was to investigate the disposal and management of RCC’s working capital and to examine the elements that hinder the efficiency of working capital management at RCC. The specific objectives of the research project were: to identify the factors affecting the efficiency of working capital management at RCC; to determine the amount of working capital employed at RCC; to examine the effects of different components of working capital management on RCC’s performance and to make recommendations based on the findings of the study. The reviewed literature was related to the research topic, and this enabled the researcher to identify the factors that affect working capital management, components of working capital management and financial ratios that are purposeful in working capital management. The findings of the study supported the objectives of the study. Critical elements of the study were identified and discussed in chapter 4. The research answered the objectives of the study and was supported by the related literature.
5.2 Summary of Findings

☐ Challenges in the Management of Working capital at the RCC

The factors limiting the management of working capital at the RCC include among others, the following: tax policy, the RCC’s inadequate communication with stakeholders, inventory management and liquidity. The results in Table 4.19 show that 20.93% of the respondents agree and 23.26% strongly agree that the working capital decisions are also influenced by the taxation policies. 13.95% of the respondents disagree that the taxation policies have an influence on working capital management and the remaining 13.95% also strongly disagreed. The taxation policies are standard and are put in place for the government to collect revenue, hence should not have much influence on the management of working capital in a company.

The management of inventory also seems to be affecting the efficiency of working capital management at the RCC. This is indicated by 48.84% of the respondents who felt that the company does not have correct approaches to managing the levels of inventory and it is further supported by 18.6% who also felt that the company does not have correct approaches to address the stock levels. 41.86% of the respondents disagreed and 32.56% strongly disagreed that the company always have sufficient stock available.

Lack of liquidity is also hampering the efficiency of working capital management at the RCC. This is revealed by 55.81% of the respondents who felt that the company does not have ready cash available in its bank accounts and it is further supported by 27.91% of the respondents who also felt that RCC does not have cash available in its
bank accounts to finance the short-term obligations as they become due. Subsequently, 46.51% disagreed and 20.93% strongly disagreed that the company’s cash flow management is effective.

- **Current ratios** - The results show that the current ratios of the RCC for the years under review, both for the group and company have been low and for the years 2007 and 2011 lie between 0.2 and 0.5. This ratio is less than the international ratio of 2.1

- **Inventory Turnover ratio** - The results above show a high inventory turnover at company level, of 71.87% in the year 2008 and a turnover of 77.06% in the year 2009 before a significant drop in the turnover to 27% in the years 2010 and 2011 respectively. At group level, the inventory turnover ratio is significantly low ranging between 21.51% and 11.46%. The higher the inventory turnover, the better.

### 5.3 Conclusions

Based on the findings of the study, the following conclusions were made:

It was concluded that working capital management of the RCC is mainly affected by the nature of business, scale of operations, business cycles, seasonal factors, production cycles, credit allowed, credit availed, operating efficiency, industry competition and inflation among others. It was observed that components of working capital management such as liquidity management, inventory management, accounts receivable management and accounts payable management are not properly managed, thereby affecting the overall
system of working capital management and company performance. It was observed that the company had a negative net working capital throughout the period observed with its current ratio below the standard, thereby making it difficult for the company to meet its operational demands.

Although a lower cash ratio of the RCC may not be much of a concern, it was observed that the company is unable to operate efficiently as it does not have access to credit facilities. The company has growth potential, however its working capital management needs huge improvement. The study revealed that working capital management at the RCC is not satisfactory.

**5.4 Recommendations**

Based on the results and findings of the study, the following recommendations were made:

The following recommendations are made to the management at Roads Contractor Company Limited in order to maintain and improve on their performance. The recommendations made are based purely on the researcher’s understanding of the situation. In order for the RCC to improve its working capital position, it needs to efficiently control all the elements of working capital (current assets and current liabilities). Elements of working capital are results of certain functions of the business and they are all interrelated. However, some of the major things which the researcher would like management to take notice of include:

*Current ratio is on a lower side against the standard of 2:1.* Current ratio indicates the ability of a company to stay afloat irrespective of the prevailing market situation.
Internationally, a current ratio of 2:1 is acceptable. The investors also seek this ratio in order to examine whether the company has adequate current resources so that it does not default on its obligations and is able to generate sufficient returns to maximize shareholders’ money.

The current ratio for the RCC in the year 2007 at group level was 0.42, 0.47 for the year 2008, 0.37 for the year 2009, 0.42 for the year 2010 and 0.50 for the year 2011. At company level, the current ratio in the year 2007 was 0.34, 0.38 for the year 2008, 0.27 for the year 2009, 0.24 for the year 2010 and 0.40 for the year 2011. The current ratio helps the creditors and investors to understand the liquidity of the company and how fast the company would be able to pay off its current liabilities when they become due. The results show that the RCC is unable to honour its short-term obligations as its current ratio is below the required current ratio of 2:1.

According to the theoretical framework, liquidity ratios measure the company’s ability to meet short-term obligations to creditors as they mature or become due (CFA Institute, 2016). Liquidity analysis focuses on the relationship between current assets and current liabilities (CFA Institute, 2016). The greater the current ratio, the higher the company’s liquidity (CFA Institute, 2016). Meaning the greater the current ratio, the greater the potential ability to cover the current liabilities. Smith as cited by Atseye, Ugwu and Takon, (2015), argues that management of working capital directly affects the liquidity and the profitability of the corporate firm and subsequently it’s net worth.
The RCC therefore needs to adequately improve its working capital management by ensuring proper management of its current assets and current liabilities. The company’s working capital management should aim at maintaining an equilibrium between liquidity and profitability while conducting the day-to-day business operations.

**Accounts receivable turnover (ART) ratio needs a tune up as compared to the Accounts payable turnover.** Generally it is required that the accounts receivable turnover ratio be high as compared to the accounts payable turnover which implies that the firm is generating sales adequate enough to cover its production costs.

The results indicate that the RCC’s ART at group level has been fluctuating, with the highest turnover of 6.38 recorded in 2009 and the lowest turnover of 5.34 recorded in 2010, whilst the accounts receivable turnover in 2008 is 5.99 and a turnover of 5.54 in 2011. The results at company level show that the ART has been dropping in each successive year. In 2008, the turnover at company level was 9.41, in the year 2009 the turnover was 8.35, in the year 2010 the turnover was 6.51 and a turnover of 6.01 in the year 2011. In 2011, it was observed that the RCC’s accounts receivable turnover was in close range with its accounts payable turnover of 5.66 at company level. This was a result of inadequate liquidity in the company leading to the company’s failure to honour its obligations as they fell due.

According to Bankapure (2012), account receivables are the outcomes of rapid growth of credit sales granted by the firm to their customers and form an important position of the
current assets of a firm. Accounts receivable management means making decisions related
to the investment in current assets as an integral part of the operating process, the objective
being maximization of returns on the investment in receivables (Bankapure 2012). If not
properly managed, accounts receivables can reduce profitability and liquidity.
According to Bankapure (2012) the goals of the accounts receivable management systems are:

1. Efficient processing and maintaining accurate, up-to-date records that are available to credit managers and other interested parties as soon as possible after payment has been received

2. Control of account receivable and ensuring that accounts receivable records are correct

3. Collection on accounts and coordination with the treasury management function.

Therefore, it is recommended that proper policies need to be formulated in order to attain the goals of the accounts receivable management systems and enhance the performance of the company, and subsequently restore the confidence of the investors.

The RCC needs to improve the inventory management by improving its Inventory Turnover Ratio. Inventory Turnover Ratio measures how efficiently a company can control its inventory. It shows whether a company does/does not excessively buy stock and waste resources in storing and controlling unusable stock. This measure also shows the liquidity of the company’s inventory by indicating how easily the company’s inventory is turned into cash.

The results for the RCC’s inventory turnover ratio for the year 2008 was 17.45%, 21.51% for 2009, 18.59% for 2010 and 11.46% for the year 2011. The turnover at group level is
significantly low. The inventory turnover at company level in the year 2008 was 71.87% and a turnover of 77.06% in the year 2009 before a significant drop in the turnover to 27% in the years 2010 and 2011 respectively. The results indicate that the RCC needs to have correct approaches to managing inventory.

The primary goal of inventory management is to maintain the best required level of inventory so that the production team or sales team can make or sell the company’s products (CFA Institute, 2016). If too much unwanted inventory is kept on hand, it is a liability because funds keep on being tied in stock without generating other income, however if inventory kept is of use, then it’s an asset. According to Gupta and Gupta (2012), the objective of inventory management is to maintain an optimum level of inventory at the right place with minimum costs to avoid stock outs. Makori and Jagongo (2013) found a positive relationship between profitability and the number of days of inventory and concluded that management should increase their inventories to a reasonable level.

Therefore, it is recommended that the RCC should apply the correct approaches to managing inventory in order to improve its liquidity.

5.5 Suggestion for Further Study

The study recommends that further studies should be undertaken to determine other factors and components that may influence working capital management, that are not covered in the scope of this study but of relevance and contribution to the achievement of the objectives outlined. A further research on the same topic with a change of methodology and a widening scope to cover a large population is suggested for example, the broadening of the research to cover other public enterprises in similar/ different sectors would help to uncover the factors that explain better performances of some public enterprises and how
these best practices could be extended to others. Also, a larger population would permit for a better performance trend analysis between public enterprises.
REFERENCES


Berry, T., Sweeting, B., Goto, J. & Taylor, M. (2002). Financial management practice amongst SMEs, Manchester Metropolitan University Business School working paper series. 22-23 retrieved from [https://e-space.mmu.ac.uk/1456/1/berry%20wp02_16.pdf](https://e-space.mmu.ac.uk/1456/1/berry%20wp02_16.pdf)


Jacob, E. O. & Philip, A. O. (2016). Relevance of working capital on organisational performance: Study of selected quoted manufacturing companies. *Developing country studies. 6*(6), 172. ISSN 2225-0565


companies manage working capital in relation to revenue growth over time.

Master’s Thesis, 30 Credits, Uppsala University, Spring 2014.


APPENDICES

Appendix 1: Questionnaire

RESEARCH STUDY: AN ANALYSIS OF THE EFFICIENCY OF WORKING CAPITAL MANAGEMENT AT ROADS CONTRACTOR COMPANY LIMITED

Quantitative Questionnaire

This research questionnaire is developed as a tool for collecting information to be used in drawing conclusions regarding the efficiency of working capital management at Roads Contractor Company Limited. You are kindly asked to provide answers to the questions contain herein to the best of your knowledge and experience. You are taking part at your own will and are expected to complete the individual research consent form before attempting to answer the questions. All information is treated confidentially.

The questionnaire is divided into two sections. Section 1, Demographic profile of participant and section 2 is participants’ perceptions on factors affecting the efficiency of working capital management.

SECTION 1 - DEMOGRAPHIC PROFILES

1. Gender

Please tick your gender in the appropriate box

<table>
<thead>
<tr>
<th>Gender</th>
<th>Please tick here</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td></td>
</tr>
</tbody>
</table>

2. Age

Please tick your age category in the appropriate box. Please tick only one option

<table>
<thead>
<tr>
<th>Age Category</th>
<th>Please tick Only one category</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 – 29 years</td>
<td></td>
</tr>
<tr>
<td>30 – 39 years</td>
<td></td>
</tr>
<tr>
<td>40 – 49 years</td>
<td></td>
</tr>
<tr>
<td>50 – 60 years</td>
<td></td>
</tr>
</tbody>
</table>
3. Academic Qualifications

Please tick your academic qualifications in the appropriate box. Please only tick your highest qualification

<table>
<thead>
<tr>
<th>Academic qualification</th>
<th>Please only tick your highest qualification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matric</td>
<td></td>
</tr>
<tr>
<td>Tertiary certificate</td>
<td></td>
</tr>
<tr>
<td>Diploma</td>
<td></td>
</tr>
<tr>
<td>Degree</td>
<td></td>
</tr>
<tr>
<td>Master’s Degree</td>
<td></td>
</tr>
<tr>
<td>Doctorate</td>
<td></td>
</tr>
<tr>
<td>Others. Please specify</td>
<td></td>
</tr>
</tbody>
</table>

4. Work experience

Please tick your work experience category in the appropriate box. Please tick only one option

<table>
<thead>
<tr>
<th>Period of employment at RCC</th>
<th>Please tick only one category here</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4 years</td>
<td></td>
</tr>
<tr>
<td>5-10 years</td>
<td></td>
</tr>
<tr>
<td>11-15 years</td>
<td></td>
</tr>
<tr>
<td>16-20 years</td>
<td></td>
</tr>
<tr>
<td>21-25 years</td>
<td></td>
</tr>
<tr>
<td>26-30 years</td>
<td></td>
</tr>
<tr>
<td>31+ years</td>
<td></td>
</tr>
</tbody>
</table>

5. Job category

Please tick your job category

<table>
<thead>
<tr>
<th>Job description</th>
<th>Please tick only one option here</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive</td>
<td></td>
</tr>
<tr>
<td>Manager (including senior managers)</td>
<td></td>
</tr>
<tr>
<td>Assistant Manager (Site Agents, etc.)</td>
<td></td>
</tr>
<tr>
<td>Senior employee</td>
<td></td>
</tr>
<tr>
<td>Other please specify</td>
<td></td>
</tr>
</tbody>
</table>

SECTION 2 - FACTORS AFFECTING THE EFFICIENCY OF WORKING

106
CAPITAL MANAGEMENT

Factors affecting the efficiency of working capital management are presented on a 5-point Likert scale as follows: 5- SA= Strongly Agree   4- A= Agree, 3- N= Neutral, 2-D= Disagree, 1-SD= Strongly Disagree.

Instruction:

Indicate your opinion on the following statements using the following scale: Strongly agree=SA; Agree=A; Neutral=N; Disagree=D; and Strongly disagree=SD.

For each statement, tick the option that best represent your opinion. If you do not have an opinion or knowledge about a certain statement, tick on Neutral.

<table>
<thead>
<tr>
<th>No</th>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>DA</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td><strong>Nature of the business</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1</td>
<td>There is a longer period between the purchases of raw materials (fuel, bitumen, cement, stones etc.) and the completion of projects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2</td>
<td>The nature of the business is such that high capital is required to run the projects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td><strong>Scale of operations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1</td>
<td>RCC has a large scale of operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.2</td>
<td>There is a lot of projects running concurrent and require more working capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td><strong>Business cycle</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1</td>
<td>The need for working capital at RCC is influenced by various stages of the business cycle e.g. during rainy seasons more working capital may be required as a result of increased work/ projects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>----------------------------------------------------------------------------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.2</td>
<td>The working capital requirement is always made available in accordance with the changing demand</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td><strong>Seasonal factors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.1</td>
<td>RCC experiences fluctuations in demand for the construction and maintenance of roads, and related projects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td><strong>Production cycle</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.1</td>
<td>Processing of raw materials (haulages, compacting, blading, bitumen etc.) takes too long resulting in delayed completions of work and delayed payments.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td><strong>Credit allowed</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.1</td>
<td>RCC has a strict (cash basis payments) or short term credit policy with its customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td><strong>Credit availed</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.1</td>
<td>RCC has good standing credit facilities with suppliers, hence diesel, bitumen, cement and other raw materials are easily available on credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td><strong>Operating efficiency</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.1</td>
<td>RCC completes projects at the earliest and receive payments at the earliest</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.2</td>
<td>RCC successfully controls its operating costs, thereby achieving optimum utilization of the company’s resources at minimum costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td><strong>Inventory management</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.1</td>
<td>Large amount of raw material/ stock (e.g. diesel, cement, bitumen, grader blades etc.) is kept on hand for a long time before it is used.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.2</td>
<td>The company has correct approaches to managing levels of inventory.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.3</td>
<td>There is always sufficient inventory available</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.4</td>
<td>Some inventory (diesel, cement, bitumen etc.) is overstocked that becomes obsolete without being used.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>10.</strong></td>
<td><strong>Growth prospects</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.1</td>
<td>RCC has sufficient possibilities and the means of undertaking various roads and related construction projects.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>11.</strong></td>
<td><strong>Level of competition</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11.1</td>
<td>RCC has high level of competition that it requires more funds/credit for quick completion of projects.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>12.</strong></td>
<td><strong>Inflation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12.1</td>
<td>The increase in Suppliers’ prices increases the level of cash required for operations.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>13.</strong></td>
<td><strong>Liquidity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13.1</td>
<td>RCC has ready cash balances which is available in bank accounts resulting from payment collections, investment income, and other cash flows</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13.2</td>
<td>The company’s cash flow management is effective</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13.3</td>
<td>The company’s cash flow management is decentralized</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>14.</strong></td>
<td><strong>Accounts receivable</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14.1</td>
<td>Customer’s invoices and other records are accurate and up to date</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14.2</td>
<td>Customers’ records are properly controlled and monitored to ensure timely collection of payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14.3</td>
<td>Customers pay their accounts on time and within the credit terms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>15.</strong></td>
<td><strong>Accounts payable</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.1</td>
<td>RCC has good relationships with its suppliers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
15.2 RCC pays its creditors on time and within the required number of days

16. **Dividend policy**

16.1 RCC’s management follows a conservative dividend policy

17. **Plant efficiency**

17.1 RCC successfully maintain its plant & equipment to ensure positive effects on the need of working capital; e.g. equipment is well serviced and maintained or old equipment is regularly replaced with new equipment to reduce fuel consumption

18. **Taxation policy**

18.1 The Government tax policies influences the working capital decisions at RCC
Appendix 2: Authorization Letter

Miss Aune Kwathiindje Keendjele
PO Box 495
Luderitz

Dear Aune

SUBJECT: POSTGRADUATE STUDIES RESEARCH

Your letter dated 02 November 2016, requesting to conduct a research on the Roads Contractor Company Limited (RCC) refers.

On behalf of the RCC, I hereby grant you permission to conduct your post-graduate research on the company solely for the purposes of fulfilling your Masters’ degree program.

We expect that during the conduct of your research, you will respect and maintain confidentiality of company information you may obtain and will provide the company with a copy of the results of the research.

RCC wishes you all the best in your research and your studies.

Yours faithfully,

Mr. T. Hanabeb
CHIEF EXECUTIVE OFFICER

Board of Directors: F.C. Jacobs (Chairman), E. Gelderbloem, E. Skrywe, M. Upindiri, L.A. Namoloh
Chief Executive Officer: T.T. Hanabeb
Company Secretary: L. N. Kaungandjela
Registration Number 2000/107
Appendix 3: Language & Copy-Editing Certificate

Dr. GM

The Rev. Dr. Greenfield Mwakipesile

CONTACT
PO Box 40209,
Ausspanplatz,
Windhoek,
Namibia

LANGUAGE & COPY-EDITING CERTIFICATE

10th November 2017

Re: Language, Copyediting and Proofreading of Anne Kwathindje Keendjele’s Thesis for the Master of Business Administration Degree of the University of Namibia

This letter serves to confirm that I copyedited and proofread Anne Kwathindje Keendjele’s Thesis for the degree of Master of Business Administration entitled: An Analysis of the Efficiency of Working Capital Management at the Roads Contractor Company Limited.

I declare that I professionally copyedited and proofread the thesis and removed mistakes and errors in spelling, grammar and punctuation. In some cases, I improved sentence construction without changing the content provided by the student. I also removed some typographical errors from the thesis and formatted the thesis so that it complies with UNAM’s guidelines.

I am a language editor and have edited many Postgraduate Diploma, Masters’ Thesis, Dissertations and Doctoral Dissertations for students studying with universities in Namibia, Zimbabwe, Swaziland and South Africa. I have also copyedited documents for companies from the same countries.

Please feel free to contact me should the need arise.

Yours Sincerely,

The Rev. Dr. Greenfield Mwakipesile

kgreenfield.mwakipesile@gmail.com
@mwakiper
+264813901701
Dr. Greenfield Mwakipesile