

Working Capital Management Strategies In The Manufacture Sector, Systematic Literature Review

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Abstract This study aims to investigate the trends in existing studies in the field of working capital management in the context of capital markets in terms of definitions, theories, themes, and methodologies. Working capital is one of the principal drivers of value in a company. This research is a systematic literature review conducted using the Preferred Reporting Items for Systematic Reviews and Meta-Analysis method, which is carried out systematically by adhering to the correct stages or research protocols with the Scopus database. A total of 30 articles were published in 24 journals from 2018-2023 were selected. This study used systematic data to reveal trends in working capital, quantitative analysis, and literature review to define relevant themes within the topic. The most research on working capital management strategies is in European countries, Ireland, Czech Republic, Hungary, Slovakia, Poland, Russia, and Eastern Europe, namely 36.7%. This shows that there is still little similar research in the Southeast Asia region. Most are still looking for a correlation between working capital management and company performance as proxied by return on assets (ROA). Implementing efficient working capital management is a key factor in the success of a company's business, especially in the manufacturing sector which depends on working capital funding.

Keywords: working capital management; liquidity; manufacturing firm; literature review.

INTRODUCTION

Studies in working capital management have gained great attention among academics, practitioners, and policymakers (Brammah et al., 2021; Mardones, 2022; Fitzsimons et al., 2023). The urgency of this topic arises as working capital management strategies have been acclaimed as a means. The aftermath of the U.S. financial crisis and the liquidity crunch that followed, invigorated the attention of financial managers to focus on the short-term financial health of firms. Efficient working capital management (WCM) reflects the policies, adjustments, and management of the level of shortlived assets and liabilities of the firm in such a way that maturing obligations are timely met, and the fixed assets are adequately serviced (M. Akbar et al., 2021).

Inefficient management of key components can negatively affect the cash conversion cycle (CCC) for a firm. Therefore, strategic and careful decisions in working capital management (WCM) are crucial to ensure optimal levels of inventories, accounts receivable, and accounts payable. Despite the significance of these decisions, many companies face ongoing challenges in enhancing and sustaining the efficiency of their working capital management. Working capital management is very important in a company. This is because

working capital can be an indicator of a company's financial health. The size of the difference between debt and short-term assets is an indicator of the company's financial condition. The greater the difference, the better the financial condition (Farhan et al., 2021). Effective working capital management typically includes the successful management of its core components, such as inventories, accounts receivable, and accounts payable. When inventories are not saleable, receivables are not collectible, and payables cannot be paid on time, it is catastrophic for businesses (Reyad et al., 2022).

Efficient working capital management (WCM) is crucial for maintaining financial health and operational agility. It involves forecasting cash flows, optimizing inventory practices, and ensuring adequate financing. Additionally, paying suppliers on time, monitoring and controlling costs, and collecting customer payments faster are effective strategies for managing working capital (A. Akbar et al., 2021). Working capital is a kind of buffer that protects an enterprise against the loss of financial liquidity (Zimon, 2019). Net working capital is the fixed capital that finances the company's current assets. It is always a positive working capital. The amount of net working capital can be calculated as the difference between equity and fixed assets. The level and amount of working capital allow for determining the financial security of the company.

Optimizing current assets and their financing resources is of great importance for firms to sustain their existence with the highest level of profitability and working capital management measured by the cash conversion cycle and its components. The cash conversion cycle (CCC) is a fundamental tool for assessing the effectiveness of WCM. The CCC is defined as the average number of days between the company paying for inventory purchases and receiving cash from the customers. The CCC measure shows the variation of liquidity depending on the extent to which the four basic elements of net working capital (purchasing/production, payment, sales, and collection activities) are performed synchronously or asynchronously and is based on the analysis of the cycles of receivables, inventories, and payables, which are denoted by DSO (days sales outstanding), DIO (days inventory outstanding), and DPO (days payables outstanding) (Özkaya & Yaşar, 2023).

Working capital management strategies in energy companies in Poland from 2010 to 2017 and finds that these companies tend to maintain a high level of net working capital. State-owned energy companies tend to have a higher level of net working capital than private companies. The article concludes that proper working capital management can help companies increase sales volume and firm value (Zimon, 2019). The main focus of research on the topic of WCM can encourage improvements in company financial performance. Efficient WCM use

current assets such as inventories, receivables, funds, and current liabilities dapat increasing business performance (Mazanec, 2022b).

The business of a firm involves a series of activities performed in an established manner, and this forms their general business operations. To conduct their business effectively and efficiently, they must adopt and follow a set of techniques and policies. WCM foregrounds the short term and the improvement of processes, beginning with purchases of material and payments to suppliers and ending in the collection of receivables from the customer. WCM is a key parameter for policy making, and it influences multiple aspects of business, including profitability and liquidity (Soukhakian & Khodakarami, 2019). Based on the definition of working capital management by previous researchers, the role of WCM is very important in company operations. The aim of working capital management is to manage current assets and current liabilities so that adequate net working capital is obtained and guarantees the Company's level of profitability. Working capital management used in this research is cash turnover, receivables turnover, and inventory turnover (Abuhommous et al., 2022; A. Akbar et al., 2021; Bilgin & Turan, 2023).

Manufacturing itself means processing raw materials through chemical and physical processes with the aim of changing the appearance, properties and shape of the final product. This process includes a series of steps from assembly to the formation of the finished product. The manufacturing industry is related to the production of physical goods through the processing of raw materials into finished products using machines, labor and structured production processes (Asif et al., 2022; Respati et al., 2022; Setianto & Pratiwi, 2019). Manufacturing companies have their own characteristics, including: (1) Complex production process to be able to produce suitable products and work with many people in various industries, (2) Product management process converting raw materials into valuable products, (3) Use of large-scale machines & extra production costs, In particular, the manufacturing industry requires efficient processes. Apart from that, manufacturing also still requires adequate human resources. Therefore, production costs must also be extra considering that there are purchases of raw materials, labor wages, machine maintenance costs, etc (Amrani et al., 2022; Faozi et al., 2022; Ferro et al., 2019; Hu et al., 2023; Wong & Zhang, 2022).

Based on the description above, research questions can be prepared which can be used as a basis for formulating the problem that will be discussed below:

Table 1. Research Question on Literature Review

Research Question
What research has been done in the field of working capital management in the context of profit efficiency, in terms of the definitions, theories, research themes, research methodologies and settings?
What are the future research agendas in the working capital management field?

A literature review paper reflects the knowledge advancement in the field of study and offers a reference point that leads to conceptualization (or reconceptualization in the case of existing phenomena) and new understanding

METHOD

This research is a systematic literature review conducted using the Preferred Reporting Items for Systematic Reviews and Meta-Analysis (PRISMA) method, which is carried out systematically by adhering to the correct stages or research protocols. A systematic review is a research method that aims to evaluate, identify, and analyze all previous research results related to and relevant to a particular topic, specific research, or the latest phenomenon of concern. The facts presented are comprehensive and balanced because systematic reviews are used to synthesize relevant research findings. The systematic literature review includes the following steps:

Formulating research questions: Formulate a well-defined research question of appropriate scope, considering existing reviews on the topic to inform the development of the research question, identify gaps, and confirm that you are not duplicating the efforts of previous reviews. **Conducting systematic literature review searches:** Define inclusion and exclusion criteria, search for studies, and use database search logs and Excel spreadsheets to record search terms under each concept. **Screening and selecting suitable research articles:** Review the titles and abstracts of retrieved references to determine which studies meet the inclusion criteria. **Conduct analysis and synthesis of qualitative findings:** Analyze and summarize the qualitative findings of the selected studies, assessing the quality of evidence, and exploring heterogeneity and its sources.

Implement quality control: Ensure the rigor and robustness of the research by following established guidelines and methodologies, and by involving an expert team in the review process. **Prepare a final report:** Present the findings, including detailed methodologies, such as search strategies used, selection criteria, etc., in a manner that allows the review to be easily updated in the future with new research findings.

RESULTS AND DISCUSSION

To review previous research discussing working capital management, the researcher selected 30 relevant articles as summarized in the table below.

Table 2: Summarize Article

No	Author's (year)	Title	Journal (Tier)	Theories and approaches used
1	(Farhan et al., 2021)	Working Capital Management Policies in Indian Listed Firms: A State-Wise Analysis	Sustainability (Q2)	An empirical model was employed to examine research hypotheses, revealing that companies throughout various Indian states adhere to conservative financing and investment strategies. The Modigliani and Miller capital structure theory posits that a firm's value remains unaffected by its financing methods in efficient markets devoid of bankruptcy costs, taxes, information costs, and agency costs.
2	(Özkaya & Yaşar, 2023)	Working capital management in the food and beverage industry: Evidence from listed European companies	Agricultural Economics (Q1)	The objective of this research is to investigate the impact of different elements of Working Capital Management (WCM) on the financial performance of publicly traded European companies in the food and beverage (F&B) sector..
3	(Demiraj et al., 2022)	Working Capital Management Impact on Profitability: Pre-Pandemic and Pandemic Evidence from the European Automotive Industry	Risks (Q2)	Effective handling of working capital is crucial for companies to prevent excessive investment in short-term assets, ensuring optimal profitability while maintaining essential liquidity for operational needs.
4	(Soukhakian & Khodakarami, 2019)	Working capital management, firm performance and macroeconomic factors: Evidence from Iran	Cogent Business & Management (Q2)	In macroeconomic theory, a decrease in inflation rates is indicative of economic stability.
5	(Mansilla-Fernández & Milgram-Baleix, 2023)	Working capital management, financial constraints and exports: evidence from European and US manufacturers	Empirical Economics (Q2)	This study examines working capital management, assessed through the cash conversion cycle (CCC), concerning exports, considering both the intensive and extensive margins. The findings from this research can be applied to the Pecking Order Theory.
6	(Mazanec, 2022b)	Working Capital Management as Crucial Tool for Corporate Performance in the Transport Sector: A Case Study of Slovakia and the Czech Republic	Mathematics (Q2)	The main objective is to analyze the impact of working capital management on the corporate performance of transportation companies, categorized by size into small, medium, large, and very large enterprises, using various liquidity and activity indicators.
7	(Braimah et al., 2021)	Working Capital Management and SMEs Profitability in Emerging Economies: The Ghanaian Case	SAGE Open (Q2)	The theory of Just-In-Time (JIT) inventory management contends that maintaining minimal inventories is both cost-effective and profitable. The explicit argument within JIT theory is that extensive inventories do not contribute value; instead, they diminish profitability.

No	Author's (year)	Title	Journal (Tier)	Theories and approaches used
8	(Mardones, 2022)	Working capital management and business performance: evidence from Latin American companies	Economic Research- Ekonomiska Istraživanja (Q2)	In nations facing limitations in their balance of payments, along with commercial surpluses and capital inflows, businesses experience enhanced credit accessibility. This, in turn, fosters economic growth and creates new avenues for investment.
9	(Candeias & Dias, 2023)	Wine Companies' Profitability in the OldWorld: Working Capital's Impact	Administrative Science (Q2)	Methodology/Approach—The study employed artificial neural networks to examine the correlation between working capital management and the profitability of traditional companies in the Old World. The analysis was conducted on a sample comprising 324 firms.
10	(Fitzsimons et al., 2023)	Tying the knot – linking bootstrapping and working capital management in established enterprises	Journal of Applied Accounting Research (Q1)	A dual methodology is utilized for this research. Initially, an analysis and synthesis of the prior literature are conducted to understand the use of the two terms. Subsequently, factor analysis is employed to investigate the connection between bootstrapping practices, as described by owners of 167 established MSMEs, and the components of Working Capital Management (WCM) in financial management.
11	(Shahid et al., 2020)	The mediating role of board size, philanthropy and working capital management between basic corporate governance factors and firm's performance	Journal of Asian Business and Economic Studies (Q1)	This study utilizes data from 32 sugar mills listed on the Pakistan Stock Exchange over a four-year period (2014–2017). To examine the model, the generalized least squares statistical method is employed to assess the relationship between variables. According to agency theory, divergence of opinions among corporate owners is deemed essential.
12	(Wang et al., 2020)	The Interplay between Working Capital Management and a Firm's Financial Performance across the Corporate Life Cycle	Sustainability (Q2)	This research utilizes a sample of Pakistani non-financial listed firms spanning 12 diverse industries from 2005 to 2014. The hierarchical linear mixed (HLM) estimator is employed to analyze the data, accommodating the multilevel nature of the observations where independence is not complete. The empirical results indicate an overall negative association between Working Capital Management (WCM) and firm performance.
13	(Abuhammad et al., 2022)	The impact of working capital management on credit rating	Financial Innovation (Q1)	This study explores the potential nonlinear correlation between working capital and credit rating. Additionally, it investigates the connection between a firm's credit rating and the three constituents of working capital, namely inventory, accounts receivable, and accounts payable
14	(Mazanec, 2022a)	The Impact of Working Capital Management on Corporate Performance in Small-Medium Enterprises in the Visegrad Group	Mathematics (Q2)	This research delves into the possible nonlinear relationship between working capital and credit rating. It also examines how a firm's credit rating is associated with the three elements of working capital: inventory, accounts receivable, and accounts payable.
15	(Asif et al., 2022)	The Impact of Sustainable Energy on Liquidity and Financial Performance of the Textile Industry	SAGE Open (Q2)	The disruptions in sustainable energy have a negative impact on the performance of manufacturing firms, leading to a direct decrease in production and an increase in operational leverage.
16	(Reyad et al., 2022)	The Impact of Macroeconomic Risk Factors, the Adoption of Financial Derivatives on Working Capital	Sustainability (Q2)	The research aims to examine the influence of macroeconomic risk factors on working capital management (WCM) and, consequently, on firm performance. It also explores the role of credit default swaps (CDSs) as a protective measure for WCM in the context of unpredictable macroeconomic risk factors.

No	Author's (year)	Title	Journal (Tier)	Theories and approaches used
		Management, and Firm Performance		
17	(Wang et al., 2022)	The Impact of Chinese Carbon Emissions Trading System on Efficiency of Enterprise Capital Allocation: Effect Identification and Mechanism Test	Sustainability (Q2)	The carbon emission trading system has the potential to enhance enterprise capital allocation efficiency through improvements in working capital management and asset operation efficiency. However, the pathway for determining the value of human capital is yet to be established.
18	(Zimon & Zimon, 2020)	Quality Management Systems and Working Capital SMEs in GPO—A Case of Poland	Administrative Science (Q2)	A quality management system is designed to enable supervision and control over the administration of individual components contributing to net working capital.
19	(Jaworski & Czerwonka, 2021)	Profitability And Working Capital Management: Evidence From The Warsaw Stock Exchange	Journal of Business Economics and Management (Q2)	The study focuses on evaluating working capital management through measures such as the cash conversion cycle (CCC), working capital value (WC), and financial liquidity (CR) in relation to the profitability of companies listed on the Warsaw Stock Exchange. The research dataset comprises information from 326 companies spanning the years 1998 to 2016.
20	(Braimah et al., 2021)	Packages or systems? Working capital management and financial performance among listed U.S. manufacturing firms	Journal of Management Control (Q2)	This research investigates the creation, significance, and systematic interconnections within and among Working Capital Management Practices (WCMPs). The dataset includes an examination of 589 manufacturing firms listed in the United States, observed during the fiscal years from 2012 to 2019. The study analyzes WCMPs from both a comprehensive package perspective and a systemic approach.
21	(Gołaś, 2020)	Impact of working capital management on business profitability: Evidence from the Polish dairy industry	Agricultural Economics (Q2)	This study investigates the relationship between Working Capital Management (WCM) and Return On Assets (ROA) specifically in milk processing companies. The metrics employed for WCM include Days Sales of Inventory (DSI), Days Sales Outstanding (DSO), Days Payable Outstanding (DPO), and the Cash Conversion Cycle (CCC).
22	(Vasiljeva et al., 2023)	Impact of Corporate Social Responsibility on the Effectiveness of Companies' Business Activities	Emerging Science Journal (Q1)	The aim of this research is to analyze the reciprocal impact between the operations of real estate companies and the effectiveness of Corporate Social Responsibility (CSR) across diverse countries. The study assesses various indicators to gauge financial stability, CSR performance, and the impact of working capital management on the operational effectiveness of real estate companies.
23	(Sultan & Murtaza, 2019)	Impact Of Aggressiveness Of Working Capital Management On Firm's Profit	Humanities & Social Sciences Reviews (Q1)	Examine whether adopting an aggressive or conservative approach is more advantageous when developing strategies for working capital management. The primary goal of any company is to maximize profits, with due consideration to the crucial element of maintaining liquidity.
24	(M. Akbar et al., 2021)	Global Financial Crisis, Working Capital Management, and Firm Performance: Evidence From an Islamic Market Index	SAGE Open (Q2)	This study investigates the influence of working capital management (WCM) on the profitability and market performance of companies comprising the Karachi Meezan Index (KMI-30), which represents an Islamic market in Pakistan from 2002 to 2013. The data is segmented into three periods: pre-global (2002–2007), during (2007–2008), and post-global financial crisis (2008–2013), allowing for an examination of the suggested relationship in distinct macroeconomic contexts.

No	Author's (year)	Title	Journal (Tier)	Theories and approaches used
25	(Mandipa & Sibindi, 2022)	Financial Performance and Working Capital Management Practices in the Retail Sector: Empirical Evidence from South Africa	Risks (Q2)	This research examines the correlation between the financial performance and working capital management practices of retail firms in South Africa that are listed on the Johannesburg Stock Exchange. The study uses a sample panel consisting of 16 South African retail firms, observed over the period from 2010 to 2019. The analysis employs a fixed-effects estimator. Working capital management is assessed through indicators such as the average age of inventory (AAI), average collection period (ACP), average payment period (APP), and cash conversion cycle (CCC). Financial performance is measured using proxies such as net operating profit margin (NOPM), return on assets (ROA), and return on equity (ROE).
26	(Habib & Dalwai, 2023)	Does the Efficiency of a Firm's Intellectual Capital and Working Capital Management Affect Its Performance?	Journal of the Knowledge Economy (Q2)	This study investigates the effectiveness of intellectual capital efficiency (ICE) and working capital management efficiency (WCME) within the industrial sector of the Gulf Cooperation Council (GCC) and how these factors may influence overall firm performance. Data for the research were obtained from Standard & Poor's database covering the period from 2015 to 2019. The methodology involves the use of data envelopment analysis (DEA), regression analysis, and robustness tests to fulfill the research objectives. The findings suggest that a majority of firms in the sector are not optimizing their investments in intellectual and working capital and require improvement measures to align with best practices.
27	(Doan & Iskandar-Datta, 2021)	Does Gender in the C-Suite Really Matter?	Journal of Accounting, Auditing & Finance (Q1)	This study explores five theories highlighting the significance of gender within the C-suite, employing two distinct contexts. The focus is on investigating how the gender of the Chief Financial Officer (CFO) affects both the stock price response following the executive's appointment and the subsequent performance of the firm.
28	(Czerwonka & Jaworski, 2023)	Determinants of working capital management in small and medium enterprises: Evidence from Central and Eastern Europe	Journal Of International Studies (Q1)	The study relies on the statistical analysis of financial data pertaining to 8,516 Small and Medium Enterprises (SMEs) operating in Bulgaria, the Czech Republic, Hungary, Poland, Romania, and Slovakia during the period from 2012 to 2020.
29	(Laghari et al., 2023)	Cash flow management and its effect on firm performance: Empirical evidence on nonfinancial firms of China	Plos One (Q1)	This research investigates how alterations in measures and metrics related to cash flow influence the financial performance of firms. The study employs the generalized estimating equations (GEEs) methodology to analyze longitudinal data from a sample of 20,288 listed non-financial Chinese firms during the period from the second quarter of 2018 to the first quarter of 2020.
30	(Zimon, 2019)	An Assessment of the Strategy of Working Capital Management in Polish Energy Companies	International Journal of Energy Economics and Policy (Q2)	The objective of the articles is to assess the management of working capital in major energy companies in Poland. Typically, state-owned companies, particularly those within the energy sector, encounter no difficulties in handling liquidity or working capital.

Source : articles used in literature reviews, 2023

The table above presents a collection of articles used in the literature review. Initially, researchers found 681 articles on the Scopus website that matched the research topic, then filtered them to 455 articles that met the author's criteria. A total of 95 articles can be downloaded, then checked on the scimagojr website to find out whether their status is in which

quartile. then 30 articles were obtained that were appropriate to the topic and entered into Q1 and Q2 Scopus. a total of 9 articles or 30% Q1 and 21 articles or 70% Q2.

Table 3: Distribution Of Research Locations By Country

Country	Area	Total	%	Article
Old World countries, United States, UK, Germany, and China; European and USA	World	3	10	(Candeias & Dias, 2023); (Reyad et al., 2022); (Mansilla-Fernández & Milgram-Baleix, 2023)
India, Iranian, Pakistan, China	Asia	9	30	(Farhan et al., 2021); (Soukhakian & Khodakarami, 2019); (Shahid et al., 2020); (Wang et al., 2020); (Asif et al., 2022); (Wang et al., 2022); (Sultan & Murtaza, 2019); (M. Akbar et al., 2021); (Laghari et al., 2023)
European, Ireland, Czech Republic, Hungary, Slovakia, Poland, Russia, Eastern Europe	Europe	11	36.7	(Özkaya & Yaşar, 2023); (Mazanec, 2022b); (Fitzsimons et al., 2023); (Mazanec, 2022a); (Zimon & Zimon, 2020); (Jaworski & Czerwonka, 2021); (Gołaś, 2020); (Vasiljeva et al., 2023); (Czerwonka & Jaworski, 2023); (Zimon, 2019); (Demiraj et al., 2022)
Ghana, South Africa, Egypt	Africa	3	10	(Brammah et al., 2021); (Mandipa & Sibindi, 2022); (Habib & Dalwai, 2023)
Latin American, U.S	America	4	13.3	(Mardones, 2022); (Abuhommous et al., 2022); (Doan & Iskandar-Datta, 2021); (Lyngstadaas, 2020)
Grand Total		30	100	

Source : articles used in literature reviews, 2023

The table above shows that the research area in the previous article was carried out on average in European countries, namely 36.7%, followed by Asia with 9 articles or 30%. However, in countries on the continents of Asia, Africa and America, there is still little quality research conducted using the Scopus Q1 and Q2 indices. These results provide an indicator that the opportunity to conduct capital working management research in Southeast Asian countries has the potential for new research.

CONCLUSION

The research has been done in the field of working capital management in the context of profit efficiency. Effective and efficient working capital management is very important for the long-term growth and development of a company. It is very likely that a company will lose income and profits if its working capital is not sufficient to increase its sales and production. Excessive working capital indicates the existence of unproductive funds and causes losses because the opportunity to make a profit has been wasted. On the other hand, a lack of working capital is the main factor in business failure, so a sufficient level of working capital is needed to ensure the company can operate effectively and efficiently (Fitzsimons et al., 2023; Hoang et al., 2023; Mazanec, 2022b; Wang et al., 2022).

From the results of reviewing articles related to working capital management, it was found that there are still many scoops of research that have not been explored further, including whether working capital management has a significant impact on company value, dividend

policy, ownership, or ratios that describe other financial performance. What are the future research agendas in the working capital management field? This has potential for future research and is worthy of being studied in depth regarding the relationship between working capital management strategies and company value. As a mediating variable, it is synthesized between profitability ratios and economic factors in the form of environmental, social, governance (ESG), which are still rarely or rarely researched. This synthesis is expected to be able to answer research gaps and be a solution for implementing working capital management to increase company value as proxied by the Tobin's q ratio.

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