

WORKING CAPITAL MANAGEMENT: STRATEGIES AND PRACTICAL RECOMMENDATIONS

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Abstract: In an unstable economic environment and with constant changes in market conditions, companies are faced with the need to develop and implement strategies aimed at optimising working capital. Effective working capital management is critical to the financial stability, operational efficiency and profitability of any organisation. Working capital, which is the difference between current assets and current liabilities, reflects a company's liquidity and its ability to finance its current operations. This article explores key working capital management strategies, analysing their impact on financial performance, and offers practical recommendations for their implementation.

Keywords: working capital, working capital management, current assets, current liabilities, liquidity, financial stability, turnover, inventory management, accounts receivable management, accounts payable management, cash cycle.

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1. Introduction

Working capital management is one of the key tasks of financial management, playing an important role in ensuring the sustainability and financial flexibility of enterprises. Working capital, which includes inventories, accounts receivable and cash, is the basis for maintaining the company's current operations and fulfilling its obligations to creditors and suppliers. Effective management of this capital not only contributes to the optimisation of financial resources, but also affects the liquidity, profitability and overall financial performance of the organisation. (Grigoriev, A. V. *et al.* 2020)

Inefficient working capital management can lead to a number of negative consequences, including: (Kovalev, V. A. 2017)

- Liquidity shortage: Inability to meet obligations on time, which can result in penalties, loss of trust from suppliers and creditors, and ultimately bankruptcy.
- Freezing of funds: Excess inventory or illiquid accounts receivable tie up valuable cash that could be used for investment, debt reduction, or dividend payments.
- Reduced profitability: High costs of financing excess working capital or losses from illiquid assets directly reduce a company's profitability.

Working capital management strategy is the ability to allocate, preserve and increase a company's working capital and is aimed at maximising its income. Business structures vary in many ways, which is why priorities in working capital management strategy may gradually change as specific goals are achieved.

Consequently, the development and implementation of effective working capital management strategies is a prerequisite for long-term success.

2. Working capital management strategies

Effective working capital management is based on optimising each of its components, striving for a balance between liquidity and profitability. The main strategies include: (Litvinova, N. V. *et al.* 2019)

2.1. Cash Management

Objective: To minimise the amount of cash that does not generate income, while ensuring that sufficient funds are available to cover current operating needs and unforeseen expenses.

- **Cash Flow Forecasting:** Regular and accurate forecasting of incoming and outgoing cash flows allows potential cash deficits or surpluses to be identified.
- **Optimisation of banking operations:** Use of centralised bank accounts (cash pooling) for effective cash management of the group of companies, minimisation of transaction fees.
- **Deposit management:** Placing surplus cash in short-term deposits with high liquidity to generate additional income.
- **Effective payment management:** Rational planning and execution of payments, use of more favourable payment terms with suppliers (without damaging relationships).

2.2. Accounts receivable management

Objective: Reduce customer payment terms while minimising the risk of non-payment.

- **Credit policy:** Develop clear credit criteria and assess customer creditworthiness before granting payment terms.
- **Establishing clear payment terms:** Including payment terms in contracts and invoices, using payment reminders.
- **Encouraging early payments:** Offering discounts for early payment.
- **Managing overdue debt:** Actively engaging with customers who have overdue debt, taking measures to collect it (e.g., penalties, transferring the debt to collection agencies).
- **Factoring:** Selling accounts receivable to specialised financial companies to obtain immediate cash.

2.3. Inventory Management (Litvinova, N. V. et al. 2019)

Objective: To maintain optimal inventory levels that ensure uninterrupted production and sales while minimising storage, obsolescence and loss costs.

Inventory management models:

- **ABC analysis:** Classification of inventory by cost and importance to determine management priorities.
- **EOQ (Economic Order Quantity):** Calculation of the optimal order size that minimises total ordering and storage costs.
- **MRP (Material Requirements Planning) and ERP (Enterprise Resource Planning) systems:** Integrated resource management systems that allow you to plan material and production requirements based on order data and production plans.
- **Just-in-Time (JIT) approach:** Obtaining materials and manufacturing products only when they are needed, which minimises inventory.
- **Improved demand forecasting:** Accurate demand forecasting helps avoid both shortages and excess inventory.
- **Supplier relationship management:** Building strong partnerships with suppliers to ensure timely deliveries and flexible terms.

2.4. Accounts payable management (Litvinova, N. V. et al. 2019)

Objective: To use available credit limits from suppliers to finance operating activities, extending payment terms without violating contractual relationships.

- **Use of deferred payments:** Maximum use of payment terms provided by suppliers.
- **Payment planning:** Optimally distribute payments among suppliers based on their terms and our financial capabilities.
- **Discounts for early payment:** Assessing the advisability of using discounts for early payment by comparing them with alternative sources of financing.
- **Negotiations with suppliers:** Negotiating more favourable payment terms, especially for long-term partners.

3. Practical Recommendations for Implementing Effective Working Capital. (Litvinova, N. V.*et al.* 2019)

Management Effective working capital management helps to increase liquidity, reduce financial risks and improve the overall financial stability of an enterprise.

Key practical steps for implementing effective working asset management methods include: (Chistyakova, O. V.*et al.* 2018)

1. Analyzing the current state of working capital.

- Conducting a comprehensive audit of current assets and liabilities.
- Identifying key bottlenecks and risk areas (e.g. excess inventory or late payments from debtors).

2. Inventory optimization.

- Implementing an automatic inventory accounting and planning system (e.g. JIT — just in time).
- Reviewing the range and volume of inventory, excluding surplus and obsolete goods.
- Regularly analyzing inventory turnover and adjusting their level.

3. Improving work with debtors.

- Introducing a clear customer credit policy: setting limits, payment terms, penalties for late payments.
- Systematic monitoring of accounts receivable, timely reminders of payments and the use of collection measures if necessary.
- Using factoring or other instruments to accelerate the receipt of payments.

4. Optimizing obligations to suppliers.

- Negotiating more favorable payment terms (deferrals, discounts for early payment).
- Planning payments so as to maximize the use of credit lines without compromising business relationships.

5. Financial planning and forecasting. (Chistyakova, O. V.*et al.* 2018)

- Developing short-term budgets for cash flow and working capital.
- Using scenario planning to assess possible risks and develop measures to minimize them.

6. Implementation of information systems.

- Using modern ERP systems to automate the accounting of assets and liabilities, analyze data in real time.
- Ensuring the availability of information for prompt decision-making.

7. Performance control and monitoring.

- Regularly tracking key indicators (liquidity ratios, inventory turnover).
- Conducting periodic reviews of the working capital management policy and adjusting it if necessary.

8. Developing a long-term management strategy. (Chistyakova, O. V.*et al.* 2018)

- Formulating a strategic goal for the level of working capital in accordance with the business strategy of the enterprise.
- Integrating working capital management into the overall corporate management system. By following these recommendations, an enterprise will be able to improve the efficiency of its resources, reduce costs, and ensure stable operations even in conditions of market uncertainty.

4. Conclusion

Working capital management is an ongoing process that requires constant attention, analysis, and adaptation. Companies that successfully master the art of working capital management will gain significant competitive advantages. They will be characterized by higher liquidity, better financial stability, a lower cost of capital and, consequently, higher profitability. Implementing effective strategies and leveraging modern tools will enable organizations not only to survive

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economic uncertainty but also to thrive, ensuring sustainable growth and financial independence.

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