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Working Capital Flows In Middle East Manufacturing Industries

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Abstract: The objective of this research is to determine the factors influencing the working capital of manufacturing firms listed in Middle Eastern countries. Data was gathered from companies in Oman, Qatar, Saudi Arabia, the United Arab Emirates, Bahrain, and Kuwait, resulting in a sample of 30 firms over the period from 2018 to 2024. The findings indicate that companies with high leverage generally possess lower working capital due to their obligations in managing debt. Moreover, larger firms often have reduced working capital levels because of their significant expenses. Interestingly, it was found that companies with high profitability also tend to maintain lower working capital, as they engage in more projects. The strong positive impact of growth and cash flow on working capital indicates that companies experiencing high growth typically manage their working capital more effectively.

***Index Terms* - Working Capital, Middle East Stock Exchange Market.**

I. Introduction

Management pertains to an organization's capacity to effectively guide and indirectly impact the operation of its business. This concept is relevant to both companies and individuals. Management reflects a collective result of the organizational culture. On an individual basis, management merges professional strategy with personal characteristics.

Companies and sectors are essential to the economic growth of a country. The overall progress of a nation is closely tied to the success of its businesses, which contribute to enhancing individuals' living standards and increasing per capita income. Therefore, effective business management is vital for corporate growth. A fund manager's main role within a company is to maximize returns. When making financial choices for businesses, managing working capital (WCM) is vital, as it directly influences the organization's agility and long-term viability.

Manufacturing companies have a somewhat stronger influence over working capital management compared to other industries, as the movement of inventory and trade receivables directly affects financial management. The two main components that essentially determine how a business operates are Capital Expenditure (CAPEX) and Operational Expenditure (OPEX). The flow of Capital Expenditure and Operational Expenditure brings Assets and Liabilities, along with Income and Expenditure, into the organization. The overall financial position of the business is defined by the sum of the movements in CAPEX and OPEX.

II. Literature Review

Concept of Working Capital Management

The type and form of the business will determine how much operating capital an organization needs. Because the duration of the production cycle influences the rotation of the cash conversion cycle, the demand for manufacturing businesses varies when compared to other sectors. However, because hypermarkets do more cash transactions than manufacturing companies, they may have a large inventory of products for retail sales; as a result, their receivables will be lower. The receivables of manufacturing organizations are much higher than those of other industries since their sales are usually done on a credit basis. The stability of an organization will be determined by the ratio of current assets to current liabilities and the levels of each.

The current assets of a business should be sufficient to pay off its committed liabilities and give the working capital cycle flow a healthy margin. The corporation can only pay off its short-term debt if it has better current asset monitoring. Since working capital is essential to a corporation, ineffective working capital management could mean doom for the company. The functioning and variations of the working capital cycle are influenced by the following elements.

The Price Water Coopers Audit firm conducted a study of publicly traded companies on stock exchanges. Over a five-year period, they looked at the working capital trends of 450 Middle Eastern businesses. A study of Middle Eastern industries suggests that boards and management teams should strategically prioritize working capital management. Effective working capital monitoring led to improved balance sheet indicators on revenue, receivables, profitability, and a greater range of non-financial benefits. Leading companies understand that creating the right capital and working capital culture throughout the entire organization may provide a significant amount of long-term value for shareholders, *PricewaterhouseCoopers (2024).*

This study looks at the relationships between working capital and company success, breaking down these relationships for each working capital component. The SMEs under investigation have been listed in the IPO index of the Bombay Stock Exchange (BSE) for a total of six years, from 2012 to 2017. Two criteria were used to choose the companies for analysis. First and foremost, the companies had to have all the data needed for this study throughout the reporting period. Second, there was no collective action by the companies. These criteria were used to evaluate 42 SMEs.

Profitability, accounts receivable, and net working capital (NWC) were found to be significantly and negatively correlated. However, there is a positive correlation between profitability and accounts payable (AP) and inventory (INV). The accuracy of our findings was confirmed by the robustness testing. The results of this study contribute to the literature by providing more empirical information relevant to the specific context under investigation. The results could also help Indian SME owners and managers make financial judgments on working capital management Chalmers, *Sensini, and Shan (2020).*

The study's goal was to investigate the relationship between quality management systems and working capital management in manufacturing SMEs. The companies under investigation were selected using a stratified sampling technique based on economic characteristics such as size and employee turnover, and their main offices were located in the province of Buenos Aires. Two parts of a questionnaire covering a three-year period (2016-2018) were used to collect the data. 325 companies participated in the survey overall. To perform the analysis, they used quantitative techniques from the business-economic matrix and statistics.

The results of the study showed that companies with quality management systems are better at managing working capital, obtaining loans, and paying off debt. The results were statistically significant. By providing empirical evidence of the positive impacts of quality management systems on working capital management in a developing nation, the study's findings contribute to the body of knowledge. The findings might also help entrepreneurs and SME managers better grasp the financial benefits of creating and implementing quality management systems *Chen, Diaz, Sensini, and Vazquez (2020).*

In order to pay short-term commitments without overinvesting in short-term assets, WCM, a crucial part of financial management methods, requires the ability to monitor a company's present assets and liabilities. Businesses of all sizes can improve their financial flexibility, reduce their dependency on outside finance, and free up resources for other investments by managing working capital efficiency. Working capital management is crucial to the survival and growth of SMEs, whose financial constraints usually have a detrimental effect on their prospects.

According to this viewpoint, the purpose of this research is to examine the relationship between profitability and working capital efficiency, with a focus on SMEs operating in the agri-food sector. A dataset of 112 Italian SMEs (784 firms/year observations) that satisfied the requirements specified in the European Commission's recommendation 2003/361/EC dated May 6, 2003, was utilized to achieve this. This evaluates the working capital management practices of the sample firms using quantitative analysis. Descriptive statistics, Pearson correlation, and regression analysis were all employed. The findings demonstrated an unfavorable relationship between the working capital cycle and corporate profitability, despite the working capital cycle being statistically significant Sensini (2020).

As per this study, a thorough evaluation of the literature on the relationship between working capital management and earnings management was conducted. The specific objectives of the study were to ascertain whether there was documented evidence of a relationship between working capital management and earnings management, whether target levels for both working capital management and earnings management existed, and how much was known about the two study variables. The first aim's results were mixed, with some research indicating a favorable relationship, others a negative one, and still others unable to make any definitive conclusions. The outcomes for the second goal were similarly unclear Aduda and Ongoro (2020)

A major contributing reason to the variance in the findings was the varied operationalization of the study variables, which was attributed to differences in conceptual, methodological, and contextual setups. The study discovered a biased propensity to utilize accounting accruals as stand-ins for earnings management and that non-accounting accruals, such as actual earnings management, were not taken into consideration. The lack of comparable studies in border economies was also noted as a possible research gap by the study, which paves the way for further, more comprehensive research in this area. In order to minimize actual earnings, the report also recommended more research into the optimal level of working capital to maintain. The time series monthly data is collected on stock prices for sample firms and relative macroeconomic variables for the period of 7 years. The data collection period ranges from January 2018 to December 2024 from various Middle East Stock Markets.

III. Research Methodology

Research is deliberate investigation. It provides a structure for decision-making. The components of research technique are numerous. Research techniques will help dispel uncertainty and present a novel field. The research design includes the demographic, sample, sampling methods, and data collection methods.

3.1 Research Design

The collection and analysis of facts relevant to the investigation are part of the research design, which is the conceptual framework that guides the research process. The plan describes the approach and methodology chosen to gather precise and trustworthy data that satisfied the study's objectives and addressed its open-ended questions. Because a case study approach stresses a detailed contextual investigation of fewer occurrences or circumstances and how they relate to one another, the researcher chose to employ it. A case study is an in-depth, careful observational method of qualitative analysis of a social unit that focuses on thoroughly examining a limited number of events or circumstances and how they relate to one another. Saunders and other authors (2009) proposed that a simple and well-written case study can challenge an established theory, despite the assumption that it lacks a scientific feel.

Because case studies stress a comprehensive contextual assessment of fewer events or conditions as well as how they relate to one another, they were used in this study. The factors of time and financial constraints were also considered when selecting this study design. The design was selected in part due to its comprehensive contextual analysis of similar situations in other businesses. In order to achieve the goal of the research, this study takes into account a thorough examination of the problems pertinent to the study's application, which will be built on data collecting.

3.2 Study Population

A population is the totality of the objects under study. It is a compilation of all cases that are of interest. The study's target audience is publicly traded manufacturing companies in the Middle East. These businesses' data from the last seven years will be used to collect primary data, and people's research and self-evaluation will be used to collect secondary data. After discussing the theoretical framework, the variables used in this study are described. After that, the development of hypotheses is discussed, and lastly, the definition of the model.

3.3 Sampling Design and Procedure

In many cases, sampling is more practical than looking at the entire population. Although no sample can be guaranteed to be genuinely representative, it achieves the goal of getting a result that is representative of the entire population being sampled without having to go to the trouble of asking everyone (Fisher et al., 2010). Middle Eastern manufacturers will supply the sample for this investigation. The researcher primarily concentrated on the Middle East because of time, manpower, and financial constraints, as well as the possibility that public entities in the region would be easy to reach.

The researcher will employ basic random sampling to guarantee that every potential respondent has an equal chance to take part in the survey. Potential respondents will only be contacted if they are willing and believed to be able to supply the necessary data. During sampling, the researcher considered a number of organizational categories in order to achieve the study's objective. This will facilitate the process of forming an opinion through observation while concentrating on the outlook and appearance of potential responses.

3.4 Research Approach

This study employs a mix of qualitative and quantitative methods. This approach makes it possible to examine both quantitative and qualitative data at the same time. In contrast to a qualitative approach, which is based on the researcher's perceptions and impressions and involves their subjective evaluation of attitudes, opinions, and behaviors, a quantitative approach involves the creation of data in quantitative form that can be subjected to rigorous quantitative analysis in a formal and rigid manner. This study employs a mix of qualitative and quantitative methods. This approach makes it possible to examine both quantitative and qualitative data at the same time.

3.5 Primary Data

The annual reports that the institutions issue on their respective Middle Eastern stock exchanges will be the primary source of the data. The primary source of data will be the Middle Eastern stock exchanges' published annual reports from 2018 to 2024. This will be examined and assessed using ratio analysis, which will demonstrate the effects of various modifications to the working capital components of the company. It will be more reliable as a public result than a budget or assumption, enabling us to evaluate the working capital problem more clearly.

Table 1: Number of Stock Exchanges in Middle East Region to collect primary data

No	Stock exchange name	Country name
1	The Dubai Financial Market (DFM)	United Arab Emirates
2	Muscat Securities Market (MSX)	Oman
3	Saudi Stock Exchange (Tadawul)	Saudi Arabia
4	The Kuwait Stock Exchange (KSE)	Kuwait
5	Qatar Stock Exchange (QSE)	Qatar
6	Bahrain Stock Exchange (BSE)	Bahrain
	Total	**06**

Source: Designed and compiled by the researcher

The question-and-answer format will be used to gather secondary data: Meet the experts, such as staff members or consultants, and ask them a variety of questions throughout their interviews to gain insight into their practical problems and strategies for resolving them. We will also collect material from books, periodicals, websites, and publications published by industry and bank associations, in addition to primary and secondary sources. To make the research more reliable, we can employ random sampling approaches.

3.6 Data Presentation

Information collected for research purposes that requires processing with specific tools is known as raw data. Through data analysis, we will be able to answer the research questions, offer interpretation, and help make informed decisions.The respondents in this study provided their opinion of lived experience using a Likert-type scale that was included in the questionnaire to enable quantitative interpretation. The quantitative data was then analyzed in relation to the additional qualitative data collected in order to solve the problem of lack of depth that often arises when only quantitative approaches are employed without explanations on the quantitative data. Compared to the qualitative technique, which usually has encounters with respondents that continue a little longer, the quantitative strategy contacts more respondents and creates contact more quickly.

Text reports, numerical techniques, image or picture models, various types of maps, unique codes, encrypted data, and symbols and markings are some of the most popular ways to convey data. Some charts, like bar charts, pie charts, time series charts, scoreboards, and bullet diagrams, can also be used to present data. Data analysis of the collected information and direct input from executives of different organizations who are directly involved in the business's working capital management will determine how the data is displayed.

IV. Result and Discussion

To ensure the effectiveness and appropriate use of working capital in its operational activities, the company's management should support this. Using a range of ratios, we can regularly compute norms and determine the amount of working capital. Production lead time, procurement flow, storage term, supplier and customer credit, and industry-specific factors all affect the amount invested in current assets. The study will provide a thorough plan that business organizations may employ to guarantee the seamless running of their everyday operations. It focuses on the free flow of finances for business operations. Many businesses struggle to find the money they need for their regular operations. Finding strategies to support the expansion of any organization's working capital structure in a way that maximizes profit is its main objective.

The annual budget or future predictions can be used to estimate or forecast the amount of working capital needed by a company. Calculating working capital flow and advising management and higher authority on company continuity are the main responsibilities of the corporate finance head. He must first determine how much will be required in the future to achieve the objectives of the budget. Then, as required, he must notify the business of any changes to the budget. The basis for an organization's expected profitability and business continuity is a suitable degree of cash budgeting. While large organizations must prepare their cash budgeting in a comprehensive manner, small businesses can learn about the common issues that all businesses face as and when the expected working capital requirement in a shorter format.

Support from the organizational management is necessary to ensure proper and efficient use of working capital. The idea that an entrepreneur would have total financial control when he launches a business might be extremely daunting. Expectations and budgets, however, begin to diverge when a business grows and starts allocating funds, potentially in both positive and negative ways.

The amount of cash convertible assets decreased, and perhaps the number of long-term assets increased, while a corporation went through a liquidity crisis. Demand rises sharply, and the supply of liquidity falls sharply during a liquidity crisis. Widespread defaults and maybe bankruptcies could result from decreased liquidity. The mismatch between assets and obligations and improper cash flow were the main causes of the liquidity crisis.

Inappropriate cash flow planning and a failure to take working capital into account early enough led to the liquidation and winding up of many firms. In order to provide new insights on how to do so and what steps should be taken as soon as a firm begins to exhibit the symptoms, our study will look at the many enterprises that have failed due to a lack of working capital. The most effective method to guarantee that, with regard to working capital, production, sales, inventories, collections, and payables are all precisely aligned.

V. Conclusion

There are two methods for approaching a problem: postmortem analysis, which provides the actual or likely cause of what occurred, and premortem analysis, which assesses the likelihood of a project failing by taking into account several scenarios. Different scenarios include the best case scenario, the worst case scenario, and the base scenario, which refers to what we now expect. When a company's management adopts a strategic approach to working capital management, they must take into account every scenario that the unit might encounter and the steps that should be taken to resolve them. In order to maximize income, promoters constantly want to focus on the return on investment and code their action plan appropriately. The organization prioritized revenue growth while also taking into account and improving the cash position.

The receivables period, payments period, and inventory and turnover time are the three main pillars that underpin a manufacturing business. The stability of these three pillars would immediately affect the working capital cycle, although private financing or bank borrowing can also change it. How successfully a company manages its cash flow will depend on its ability to efficiently plan, monitor, and account for its current assets and liabilities. A company's liquidity status should be improved before making any more investments because if it isn't, it will deteriorate and suffer from a lot of problems.

The main objective of this research study is to investigate an organization's working capital cycle and how it impacts its stability and profitability, based on a study done among enterprises in the Middle East Region. According to the study's conclusions, companies should improve their liquidity positions and use a range of tactics to get rid of problematic units if they wish to prevent insolvency and winding up. They also note that a profitable company will pay off its debts and convert its stock swiftly. However, care should be taken when extrapolating the study's findings because of its shorter study period and lower sample size.

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