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**CHARACTERISTICS OF THE FORMATION
OF WORKING CAPITAL MANAGEMENT POLICY
PROVIDING PRODUCTION AND SALES PROCESS**

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**ОСОБЕННОСТИ И ИНСТРУМЕНТЫ УПРАВЛЕНИЯ
ОБОРОТНЫМ КАПИТАЛОМ,
ОБЕСПЕЧИВАЮЩИМ ПРОИЗВОДСТВЕННО-СБЫТОВОЙ ПРОЦЕСС**

Nowadays, the development of the domestic industry is the main task of an economic strategy of the country. The development of processing industries that include the enterprises of timber processing complex has to become the key issue. The improvement of the management of the working capital that serves the production and marketing process of the industrial enterprise is one of the essential problems of the modern production management. The article focuses on the peculiarities of the implementation of the production and marketing activities causing the necessity to develop a new mechanism of the performance management of limited reverse resources to receive the highest economic results from all financial and economic activities. The existing approaches to the development of the management policy are outlined. However, each individual enterprise has to form an individual technique (tools and methods) in the developing situation. The authors show that the previous methods of the working capital management of manufacturing enterprises (rationing) in a modern unstable and unpredictable economy do not work successfully. It is noted that the exiting methods, used by western companies and economists, cannot be effectively implemented in the current business environment. Therefore, under present circumstances it is necessary to provide the enterprises with some operational adaptation ways of the regulation of ensuring production and marketing process with current assets. It is essential for each enterprise to develop the working capital management policy individually. Only its own resources and interests should guide it. The authors draw a conclusion that the duration of the turnover used for the working capital and the established profitability at every stage and in general for PSP should act as the performance criteria of an adopted policy of the working capital management.

AN ENTERPRISE; WORKING CAPITAL; WORKING CAPITAL MANAGEMENT; PRODUCTION AND SALES PROCESS; MANAGING THE PRODUCTION AND SALES PROCESS MANAGEMENT TOOLS.

Развитие отечественной промышленности – главная задача экономической стратегии страны. Наиболее важным первоочередным направлением должно стать развитие перерабатывающих отраслей промышленности, к которым относятся и предприятия лесопромышленного комплекса. Совершенствование управления оборотным капиталом, обсуживающим производственно-сбытовой процесс промышленного предприятия – одна из актуальных проблем современного производственного менеджмента. Делается акцент на особенности осуществления производственно-сбытовой деятельности, вызывающие необходимость выработки нового механизма управления эффективностью ограниченных оборотных ресурсов с целью получения наиболее высоких экономических результатов от всей финансово-хозяйственной деятельности. Существующие подходы к выработке политики управления приводятся как возможная отправная линия, однако каждое конкретное предприятие на этой базе должно формировать индивидуальную методику (инструменты и методы их применения) в складывающейся ситуации. Показано, что прежние методы управления оборотным капиталом производственных предприятий (нормирование) в современных условиях неустойчивости и непредсказуемости экономических процессов себя не оправдывают. Отмечено, что существующие методы, широко используемые западными экономистами и практиками в условиях российского предпринимательства, также не могут быть эффективно использованы. Поэтому в сложившихся реальных обстоятельствах предприятиям необходимы оперативные адаптационные способы регулирования обеспечения оборотными средствами производственно-сбытового процесса. Каждому предприятию необходимо индивидуально подходить к формированию инструментов управления оборотным капиталом, ориентируясь исключительно на собственные ресурсы и интересы. Сделан вывод, что критериями эффективности инструментов управления оборотным капиталом целесообразно выбирать длительность оборачиваемости используемых оборотных средств и задаваемую рентабельность на каждой стадии и в целом для ПСП.

ПРЕДПРИЯТИЕ; ОБОРОТНЫЙ КАПИТАЛ; УПРАВЛЕНИЕ ОБОРОТНЫМИ СРЕДСТВАМИ; ПРОИЗВОДСТВЕННО-СБЫТОВОЙ ПРОЦЕСС; УПРАВЛЕНИЕ ПРОИЗВОДСТВЕННО-СБЫТОВЫМ ПРОЦЕССОМ; ИНСТРУМЕНТЫ УПРАВЛЕНИЯ.

Industry development is based on the economic development of the country. The most important task is to develop processing industries that include the enterprises of forest sector.

The economic mechanism of the management efficiency of production and business operations has undergone numerous transformations in accordance with the new paradigm of management for twenty years of free entrepreneurship. Yet, there are still problems that need constant development. They include the improvement of the current asset management that ensure the implementation and the efficiency of the production and sales process or its operating activities. Whereas, an operating activity is the main source of profit for any enterprise.

The term «working capital» refers to the mobile assets of the enterprise. There is a constant transformation of separate components during the production activities. At first, enterprises purchase raw materials and supplies. Then, the first unfinished goods appear during the production process. After that, the finished products are produced. Then, as a rule, they are sold on credit. As a result, they form receivables that after while become money. This ensures a comprehensive continuous production and sales process (PSP) that considerably determines the efficiency of all activities. Figure shows this cycle.

Current assets can be characterized from different perspectives. However, their main properties are liquidity, volume and structure. Each of these properties requires a special consideration and makes working capital complex as an economic category and an important element in the business management system.

In terms of a command-administrative system, rationing of the most important elements was the main method of the current asset management. It means that rationing determines the standard inventory to provide an uninterrupted

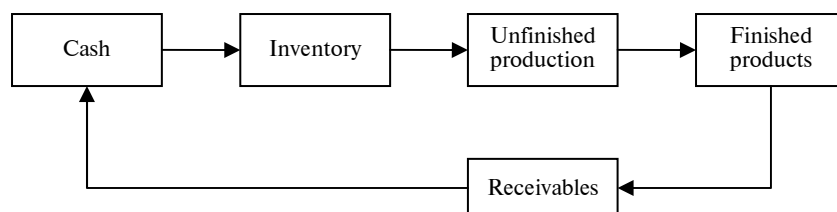
production process at their optimal size in terms of current costs. Nevertheless, even with a relatively stable and predictable economic situation, a lot of enterprises, as a rule, suffer from the lack of current assets and difficulties with its replenishment.

Volatile market conditions, unstable pricing and financial institution instability characterize the current situation. Thus, it puts forward new requirements for the current asset management. The problems of the current asset management typical for a command-administrative system not only exist in the market system but also have significantly complicated.

We have investigated the results of exiting methods of the current asset management in furniture production enterprises of Saint Petersburg and Leningrad Oblast. The presented technical and economic indicators show the absence of any system dependencies between all indicators and current assets (Tab. 1). It demonstrates the absence of any management policy aimed at current assets. Free entrepreneurship allows companies not to use previous instructions and guidance but it does not provide them with new tools and methods. As a result, a lot of enterprises face problems in their activities mainly due to the lack of current assets.

A lot of economists are concerned with the development of effective methods of the capital management in PSP. Some modern methods of management are used throughout the world. For example, the model of Baumol and the model of Miller-Orr are use for inventory management. They allow optimizing the sum of current assets. Using these models makes it possible to determine:

- the total sum of cash and cash equivalents;
- the amount of money reserved on the current account;
- when and what amount it is necessary to make transformation from cash to highly liquid securities.



Cycle of current assets in PSP

Table 1

Technical and economic indicators of furniture production enterprises in 2013

Enterprises			A	B	C	D	E	F
1.	Revenue	th.rub	748925	39601				
2.	The number of employees	people	517	40	38	85	303	71
3.	The total cost	th.rub	628904					
4.	The cost of 1 ruble revenues	rub.	0.84	0.8	0.89	0.98	0.9	0.87
5.	Net profit	th.rub.	82807	5355	11550	1444	21009	19901
6.	Fixed assets	th.rub	86000	44557	15448	8449	33013	17605
7.	Current assets, total	th.rub	1145769.5	17619	13300	27264	117082	29553
8.	Including inventories	th.rub	229153	9018	4217	16915	69112	21015
9.	Receivables	th.rub	667461.4	7596	7911	8703	35404	7902
10.	Current assets turnover ratio		0.9	2.25	10.6	3.1	4.45	7.14
11.	The duration of one turnover	days	40.5	160	34	116	80.9	50.4
12.	The profitability of fixed assets	%	96	5.9	20	16	63.6	113
13.	The profitability of current assets	%	7.2	30.4	86	5.3	17.9	67.3
14.	The duration of PSP Stages:	days						
	I		25	17	10	7	15	18
	II		29	19	7	16	16	13
	III		351	124	17	93	49.9	19.4
15.	The profitability of sales	%	19	77.9	11.9	1.9	11.3	15.2

However, in Russia using these models is difficult due to a strong inflation, high interest rates and other factors of instability. Being the most regulatory organized the actual production process is the most manageable link in the chain.

The management of current assets in the sphere of sales is one of the biggest problems. The reasons are unsustainable and unreliable relations with customers, low financial solvency and payment discipline, etc. The duration of one turnover of current assets in days, T_{psp} (in days) is the main indicator defining the the effectiveness of the current asset management:

$$T_{psp} = T_{oz} + T_{prpr} + T_{deb},$$

T_{psp} – the duration of production and sales process, days; T_{oz} – the duration of one turnover of inventories, days; T_{prpr} – the duration of one turnover of production process, days; T_{deb} – the duration of one turnover of receivables.

These calculations are based on data from financial statements that are related to PSP (from buying inventories until the date when the

money come to current account as a payment for finished goods).

The research shows that it is necessary to form a new policy for the current asset management that satisfies modern conditions. The main factors influencing on the the current asset management include the type of a company, the production development stage, working with contracts, information and competitiveness.

The most important feature of forest sector enterprises is a high material consumption for manufactured products. It shows that an effective management should include the optimization of the formation of inventories. The share of inventories in current assets amounts to 75–80 %. A high level of receivables is another factor to be taken into account.

Every enterprise during its development passes the following stages. They include an intensive development stage, a stable position in the market and the decline in sales. The volume and structure of currents assets depend on the current development stage of the company. The regulations



for current assets that are used in the period of a sustainable development cannot be used during its intensive development. For example, if a company is developing fast and trying to gain a foothold in the new market, current assets are quickly increasing. It is necessary for a company to give customers credits, to capture a market share and to have a big range of inventories to increase the speed of customer's service. It western companies about 80 % of bankruptcies occurs due to an ineffective current asset management in the intensive development of the company.

Inflation is one of the main factors that influence on the current asset management. For example, if a high growth in the prices for raw material is expected, it is possible to have overstated inventories. But only if an inflation level is higher than storage costs.

Seasonal fluctuations also influence on the current asset management. Wood-processing enterprises are subject to this factor, as forest

harvesting is seasonal. The inventories can be increased by 20–50 % due to this fact.

The ideologists of modern evolutionary Economics claim that nowadays it is not possible to develop the right policy for the current asset management. The data obtained from the six surveyed furniture enterprises confirm it (Tab. 1).

The policy of the current asset management should be established jointly by the heads of functional enterprise departments (the financial director, the planning director, the production director, the head of the sales department, etc.) and approved by the managing director. Taking into account the dynamism of the economy such work must be performed annually at the time of enterprise budget approval.

Nowadays, three approaches for the current asset management exist: conservative, hedging and aggressive. Tab. 2 shows the main approaches to the development of each type of the policy for the current asset management.

Table 2

Approaches for the current asset management

Approach	Implementation in practice	The ratio of risk and return
Inventories		
Conservative	The formation of the excessive volume of insurance premiums and reserves in case of interruption and the cases of emergency	Significant losses for inventory storage and the diversion of funds from circulation and as consequence, lower yields. The risk level connected with production stop is minimal
Hedging	The formation of reserves in case of typical failures	Average return. Average risk
Aggressive	The minimal level of inventories, just-in-time delivery	Maximum return, but even the slightest failures threaten to stop (delay) production
Receivables		
Conservative	A strict policy of credit provision and the collection of debts, the minimum payment periods, working only with reliable clients	Minimal loss from the formation of bad debts and late payments, but the level of sales and competitiveness is low
Hedging	Providing the average conditions of delivery and payment	Average return. Average risk
Aggressive	Big delay, flexible credit policy	A big volume of sales providing the prices higher than average market prices, but there is a big probability of the creation of overdue receivables
Cash		
Conservative	Keeping a large insurance cash balance.	The opportunity to make scheduled payments, even if temporary problems with collection money may lead to impairment
Hedging	The formation of relatively small insurance reserves, investing in the most reliable securities	Average return. Average risk
Aggressive	Storing the minimum cash balance, the investment of available funds in highly liquid securities	The enterprise has a risk not to have ability to pay for urgent liabilities or to receive losses due to receiving an unplanned short-term financing

The chosen current asset management policy may form only the basis to calculate the necessary amount of working capital. In practice, the need for working capital is mostly calculated based on the reporting data for the previous period as a percentage of sales adjusted for the percentage growth of sales. The ratio of the different types of assets (inventories, unfinished goods, finished goods, receivables) is based on the statistical information of the previous year. This method can be effectively used in the stable business environment. But it is not typical for the current situation.

The main task of the accepted current asset management policy is to ensure its efficiency and as a consequence the effectiveness of the whole PSP.

The profitability of assets and net current assets are used as the main criteria to estimate the efficiency. However, it is difficult to estimate the efficiency of the management based only on the amount and the structure of current assets. It is necessary to compare them with the financing sources. For this purpose, the indicator net working capital is calculated.

Net working capital is defined as the difference between current assets and short-term liabilities. The main task for management is to minimize the amount of net working capital. If net working capital more than zero, it means that enterprise's equity was used to finance current assets that are very often more expansive than borrowed funds. It is optimal condition when net working capital is equal to zero. It means that current assets are fully financed by borrowed funds. The indicator of the profitability of current assets is widely used in practice of western companies. It allows receiving the estimation of the effectiveness of current asset usage of any company. As a rule, the profitability of current assets is used as a key performance indicator of any company. The target value of the indicator is established. The calculations of the indicator are performed according to the formula:

The profitability of current assets (%) = the profitability of sales (%): the turnover of current assets = an operational profit: an average amount of current assets

This indicator allows estimating the effectiveness of current asset usage in any

company and defining the reasons of discrepancies between planned and actual data. It is necessary to make adjustments to the current asset management policy, if as a result of the performance evaluation of the planned volume of current assets, the value of net working capital is unsatisfactory and the profitability of current assets do not match the target value. For example, the company may revise credit terms for the customers, supplier relationship management, etc. After that, it can estimate the need for current assets and the efficiency of its plans again. Despite the apparent complexity of such calculations, it does not require from the company significant efforts, and the search for acceptable solutions can be implemented in Excel.

The chosen policy for the current asset management is effective. To control the effectiveness of the policy it is necessary to:

- to estimate the control indicators;
- to define clear responsibilities;
- to create a motivational system.

It should be carried out for all elements of current assets.

In practice, such indicators as turnover ratio, limits (for example, the minimum level of inventories) are used as control indicators. These indicators should be established for each group of assets. Depending on the speed of the turnover of current assets, the control for the selected indicators should include weekly and monthly monitoring. It will allow reacting on changes quickly and effectively. The financial department or the controlling department should provide the control function.

Another important aspect is the distribution of responsibilities to implement the standards included in the current asset management policy. The responsibilities among departments can be distributed as follows:

- the procurement department is responsible for such indicators as the turnover period of advance payments for suppliers, inventories and supplier debts;
- the production department is responsible for the turnover period of unfinished goods;
- the sales department is responsible for the turnover of finished goods, receivables and received advance payments.



Then, it is necessary to develop a motivation system. It should be focused to obtain the set tasks. As a rule, it is a system of fixed payments upon the achievement of the specified values of turnover indicators.

To implement developed standards and regulations of working capital management it is necessary to develop an appropriate documentation package to be accepted and carried out by the company.

Thus, the research shows that it is highly important to develop a special flexible mechanism in the management of PSP in small and medium-size enterprises with limited staff. It is based on not only on already existing tools, for example, the rates of turnover of current assets, but also on the methods and guidelines that allow manufacturers to achieve the desired results.

Conclusions

1. The previous methods of the working capital management of manufacturing enterprises (rationing) in a modern unstable and unpredictable economy do not work successfully.

2. The exiting methods, used by western companies and economists, cannot be effectively implemented in the current business environment.

3. In practice, companies need rapid adaptive means of the regulation to provide a production-sales process with the working capital.

4. It is essential for each company to develop the working capital management policy individually.

5. The duration of the turnover used for the working capital and the established profitability at every stage and in general for PSP should act as the performance criteria of an adopted policy of the working capital management.

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