

AN ANALYSIS OF WORKING CAPITAL MANAGEMENT IN THE AIR TRANSPORT COMPANY PLL LOT

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Abstract

Effective management of an enterprise needs to be based on financial security. Uncertain financial situation of a company limits the efficient making of short-term decisions that directly affect the level of net working capital. Net working capital is one of the basic measures of financial liquidity. It is important for the company managers to choose a working capital management strategy that will ensure the company safe functioning and systematic improvement of financial results. The choice and type of strategy used depend on the goals that the manager wants to achieve, but also on the industry where the unit operates. The working capital in trade, production and service enterprises is managed in a completely different way. The purpose of the article is to analyze and evaluate the working capital management strategy in LOT Polish Airlines. The company is a state-owned enterprise which is the leader of air transport in Poland. PLL LOT as a market leader, can use combinations of working capital management strategies.

Keywords: Air transport, working capital, strategies

1. INTRODUCTION

Unexpectedly emerging payment delays are the most common cause of company failures. The lack of timely payments from contractors limits the possibilities for companies to settle their liabilities in a timely manner. In addition, uncertain saturation in global markets, trade conflict between the US and China should force managers to seek financial resources to secure their operations. The buffer protecting an enterprise against the loss of financial liquidity is net working capital. Managing it is very complicated and it is based on three classic management strategies. In the case of state-owned enterprises, the basic strategies for managing working capital are also used. In general, state-owned enterprises belong to the leaders in the Polish market, of which PLL LOT is an example in the area of transport service. In state units, some additional difficulties often arise which may complicate the current operation of the unit. Such type of events include strikes organized by labor unions and the politicization of supervisory boards of state-owned enterprises. In recent months, strikes have occurred in PLL LOT, which caused large financial losses. Adventitiously damaging HR policy and the filling of supervisory boards and managerial labor stances using the political key may cause financial difficulties. A very good example of low management skills are the numerous problems that arise. An example is the event of this month when the aircraft was grounded at an airport in Japan as a result of a Boeing 787 Dreamliner defect. To repair the problem and complete the transport service to the end, the employee of PLL LOT asked the passengers to borrow money for which it was possible to buy the part, thanks to which the aircraft was repaired and was able to make a return flight to Poland. This situation is bizarre. On the one hand it shows the ingenuity of the employee, on the other it shows what mistakes managers of individual departments of state-owned enterprises make. Such an event will have a negative impact on the acquisition and protection of the enterprise. Securing that such situations will never happen again in the future is to create an appropriate policy for making payments and, above all, to find financial resources that will, in a sense, secure the most liquid cash. The positive net working capital is just a guarantee of financial security and improves the company ability to settle its current liabilities. The article presents and evaluates the management strategy of working capital in a state-owned enterprise that provides airport transport services. The purpose of the article is to analyze the working capital management strategy in the PLL LOT enterprise. The analysis was carried out on the basis of financial data for the years 2012-2016. In order to determine the working capital

management strategy, tools from the initial financial analysis and selected financial ratios were used. The measures related to the structure of current assets, indicators of financial liquidity, debt ratios as well as turnover ratios on receivables from customers and liabilities to suppliers were used.

2. WORKING CAPITAL IN COMPANY

Working capital management is an appropriate control of current assets and current liabilities. Currently, one can meet with various methods of defining working capital, most often it is defined as the value of current assets, which arises after reducing the current assets by the value of short-term liabilities [1,2]. This is the most popular definition of working capital. In the literature it is referred to as *net working capital* or working capital [3]. There are two levels for determining net working capital. The first is the accounting treatment, where net working capital is the difference between current assets and current liabilities. In turn, in financial terms, the net working capital is calculated as the difference between the fixed capital and the fixed assets. The level of capital calculated using the first method is a short-term one. The second method is the calculation of the level of working capital with a long-term horizon. To calculate net working capital in the short-term, one needs to identify current assets and liabilities. Current assets include inventories, receivables, short-term investments, cash and short-term prepayments. Short-term liabilities are balance sheet items such as trade liabilities, loans and borrowings, debt securities issued, advances received for deliveries, promissory notes, tax, customs and insurance liabilities, payroll liabilities and special funds. Working capital is recognized as a kind of safety buffer for an enterprise. Net working capital in an enterprise plays the following roles is primarily a measure of financial liquidity and protects against the volatility of supplies [4]. Companies need it in order to reduce the risk that results from the financing of current assets in the event of difficulties in the sale of manufactured products or in the case of problems with the recovery of receivables from contractors. Enterprises may have different levels of working capital. There are three levels of net working capital - positive, negative or equal to zero [5].

The level of net working capital (NWC) is considered the most important information for the management of an enterprise. One can talk about a positive net working capital when part of the company's current assets are financed with fixed capital. Positive working capital means the security of the company. Current assets are financed through short-term liabilities and through fixed capital. And the part of the fixed capital that finances current assets is called positive net working capital.

3. STRATEGY OF ROTARY CAPITAL MANAGEMENT STRATEGIES

Working capital management should be treated as a process of shaping the size and structure of assets as well as acquiring sources of financing of these assets [6]. The most important areas shaping the level of working capital are short-term receivables, inventories and current liabilities. From the point of view of receivables and liabilities, the greatest attention of managers should focus on receivables from customers and liabilities to suppliers. An effective management strategy in these three areas should result in optimization of working capital, which should result in lowering the costs of managing it. The cost reduction will positively affect the profitability of enterprises. However, the most important task for the management staff is to determine such a structure and level of working capital, which will allow maintaining safe financial liquidity. Financial managers spend the most time on managing working capital, which is why it is very important to choose a management strategy that will not require additional time to verify them. The classic division of the working capital management strategy is as follows [7]:

- Conservative, or safe,
- Aggressive, otherwise risky,
- Moderate, or indirect.

The conservative strategy is characterized by maintaining a clear advantage of current assets over current liabilities. When analyzing individual components of current assets, it is necessary to observe a higher level of



inventories over receivables. Inventory secures the maintenance of liquidity, however, it quickly generates costs. Yes, so this type of working capital management due to the inventory management strategy will reduce the profitability of the enterprise. The level of receivables is, therefore, effectively reduced in this strategy. The negative feature of this mode of operation may be a decrease in the level of sales resulting from the discouragement of new customers by the lack of attractive offers of commercial loans and, in the case of verified customers, by the lack of new offers extending the buyer's credit. This type of receivables management policy generates the emergence of cash. It has a positive impact on the security of the company operation. However, this type of management can be dangerous because in the long run it can also limit the company development. The lack of openings to new customers will hamper development, limit the market. In the event of the appearance of a "strong player" in the market that applies an aggressive policy in the long run, such a strategy may lead to the collapse of the enterprise. Short-term investments are maintained at a higher level than the industry average. This is mainly due to the conservative policy of managing receivables. Current liabilities management also assumes maintaining lower levels than the industry average. The fewer current liabilities, the fewer problems with timely payment [8]. An aggressive strategy is characterized by maintaining current assets and liabilities at a similar level. The inventories are kept at a lower level which may cause downtime. This strategy may include costs of unused opportunities. The argument for using this type of management strategy is that, the risk of incurring additional expenses on the purchase of raw materials at a higher price in the event of stock shortages is usually small. Usually, the costs of maintaining stocks at medium and high levels are higher than the additional purchase expenses. [9] However, the cost of losing a new customer or permanent resulting from the lack of assortment at a given moment is very high. The aggressive strategy of receivables management is characterized by a high level of receivables. Their high level results from the offering of trade loans to virtually every company, whether new or old. However, there are problems with debt enforcement. The lack of inflow of receivables may lead to the collapse of the enterprise. Short-term investments are at a low level. The current measures cover commitments. This type of management strategy is characterized by maintaining a high level of liabilities to suppliers.

The third type of working capital management is a moderate strategy. An enterprise using this type of method tries to minimize the weaknesses of the conservative and aggressive strategies and to maximize their benefits. This strategy should be divided into moderate - conservative and moderate - aggressive strategies. The moderate strategy will be largely indirectly related to classic strategies, so it should be divided into at least two groups.

In the case of state-owned enterprises whose operation and risk management is at a different level compared to private enterprises, a new next strategy for managing working capital may appear.

4. AN ANALYSIS OF WORKING CAPITAL MANAGEMENT AT PLL LOT

When analyzing working capital management in the state company PLL LOT, it should first of all be stated that this capital achieves negative results. These strategies should be assessed negatively, because in the long run it may lead to the collapse of the company. The details are presented in **Table 1**.

Table 1 Net working capital in the PLL LOT company

Financial index	2016	2015	2014	2013	2012
Net Working capital	131 825 235	-81 088 159	-143 371 739	-462 632 850	-277 740 812

Source: author's own studies

The positive feature of the strategy is a high share of cash and low inventories. Thanks to this, LOT Polish Airlines obtains an average level for the fast liquidity ratio, which allows it saving current financial liquidity. The detailed share of individual elements in the structure of current assets and the credit position ratio is presented



in **Table 3**. The credit position ratio was calculated by comparing receivables from customers to liabilities towards suppliers

Table 2 Structure of current assets in the PLL LOT company

Financial index	2016	2015	2014	2013	2012
Ratio of the share of receivables in current assets	0.35	0.38	0.43	0.49	0.38
Ratio of the share of cash in current assets	0.36	0.24	0.23	0.16	0.33
Ratio of share of inventories in current assets	0.21	0.27	0.22	0.29	0.23
Credit position ratio	0.40	0.34	0.38	0.30	0.29

Source: author's own studies

When analyzing **Table 2**, it is clearly visible that PLL LOT is a borrower. To a very large extent it uses foreign capital, which may pose a serious threat to the financial security of the entity.

A confirmation for the credit position ratio are the results of management effectiveness ratios for individual elements creating working capital. The detailed results for selected ratios of management efficiency of working capital components and for the credit position ratio are presented in **Table 3**.

Table 3 Selected ratios of the effectiveness of management, structure and credit position in the PLL LOT company

Financial index	2016	2015	2014	2013	2012
Receivables rotation ratio in days	35	35	45	41	36
Liability rotation ratio in days	86	99	114	138	126

Source: author's own studies

When assessing the receivables and payables turnover rates in days, we can observe a twice as long period in the case of paying liabilities to suppliers as compared to the inflow of receivables. If this period is the result of negotiations and a favorable offer in terms of settling liabilities, this result should be evaluated very positively. Perhaps in the analyzed specific industry there are very long deadlines for repayment of liabilities. However, a high level of liabilities compared to current assets indicates that an increase in overdue liabilities may affect the growth of this ratio.

When assessing individual elements affecting the level of net working capital, one worrying fact is crucial, which is of key importance for financial security to the level of indebtedness. A high share of this ratio indicates low financial liquidity. This is confirmed by the financial liquidity ratios presented in the **Table 4**.

Table 4 Financial liquidity and debt ratios at LOT Polish Airlines

Financial index	2016	2015	2014	2013	2012
Financial liquidity	1.1	0.9	0.8	0.6	0.7
Quick ratio	0.8	0.6	0.6	0.4	0.6
Debt ratio	0.98	1.09	1.05	1.07	1.09

Source: author's own studies

When analyzing **Table 4**, it can be seen that the level of the debt ratio in the audited period is a huge advantage of liabilities in the structure of liabilities. The confirmation of this is the lack of financial liquidity and negative net working capital.

5. CONCLUSION

Business management strategies should be assessed negatively. This is confirmed by the lack of profitability and financial liquidity, employee strikes. It is evident that the company should carry out controlling in the area of costs and management of working capital, especially cash flow. Reducing costs will increase profits, there will be cash, which will increase the level of current assets, which will certainly reduce the level of liabilities. For this purpose, it is worth trying to apply purchasing groups for spare parts and fuel. It will affect the level of costs positively [10].

These activities will result in the emergence of a positive NWC, which will be a buffer protecting the company against bankruptcy. Nevertheless, the specificity of the industry, despite these changes, will not change the applied working capital management strategy, which should be described as aggressive. It is likely that the net working capital will be kept low and the strategy that will be implemented will be an aggressive strategy.

The biggest problem in the analyzed enterprise is the lack of positive working capital, apart from one period, which is confirmed by financial liquidity ratios. A high share of cash in current assets should be assessed positively, which in the analyzed periods achieves results from 16 % to 33 %. Inventories, in turn, constitute the lowest share in the structure of current assets. The high share of cash and low inventories allows obtaining high quick liquidity results from the level of 0.4 to 0.8. As a result, the company has funds and positive working capital for current operations. In addition, a large difference between the inflow of receivables and the payment of short-term liabilities strengthens the company's financial security. The receivables flow faster. The high level of liabilities is a big problem and burden for the company and in this area one should look for solutions that will increase equity in the structure of asset financing.

If the level of liabilities of suppliers and the share of cash in current assets are significantly reduced, the aggressive strategy will be kept in a moderate-aggressive strategy. A change to this type of strategy would certainly result in the emergence of positive working capital and an increase in profitability and financial liquidity in the company.

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