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Components of working capital and their level of importance in South African welfare non-profit organisations

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Abstract

Working capital is the lifeblood of any organisation, whether for-profit or non-profit (NPO). Over the years, for-profit organisations across different industries and sectors have been studied to determine optimal working capital levels given the availability of funding within those sectors. However, studies of NPOs have been limited. According to the South African National Treasury in 2025, at least 45% of South Africa's population is reliant on the social welfare sector. However, organisations in this sector reduced their available funding by 15% from 2021 to 2024 according to Trialogue, 2024 research. One of the core reasons for NPO closure is the lack of availability and inappropriate utilisation of funds. The sector is not well equipped to understand all its problems but one of the foremost is the management of its working capital finance. As the incorrect prioritisation of working capital components fails to focus on areas of propriety, the correct hierarchy of importance needs to be established. This study addresses and tests the components of NPOs' working capital through its hypotheses and objectives, providing better guidance to NPOs. The analysis shows that the hierarchy of the working capital components in NPOs differs from that of profit organisations. It also reveals that NPOs face higher levels of liquidity problems, associated with shortcomings in their working capital management. A revised model for NPOs, compared with that for for-profit organisations, is proposed to address the research problem.

Keywords: Working Capital; Accounts Receivable; Cash; Accounts Payable; Short-Term Liabilities; Liquidity

1. Introduction

The South African non-profit welfare sector comprises over 97,000 organisations spread over nine provinces (DSD, 2024). These organisations are very dependent on donor funding to survive. Research by Trialogue found that NPOs were faced with an alarming funding shortfall of 15% in 2021 and 26% in 2024 (Trialogue, 2024: 249). Given this challenge, the research seeks to understand how these welfare NPOs assess the importance of each working capital component and how they manage them. This assessment is compared with that of corporate entities with higher growth rates and the ability to replenish working capital more quickly.

An understanding of the key characteristics of each component of working capital enables the comparison and contrast of working capital approaches in the non-profit and for-profit sectors. To identify gaps and propose improvements, recent studies in the profit sector provided the baseline for this empirical study. Establishing the contrast enabled comparison between for-profit businesses, which are resilient and achieve much greater economic growth, compared to NPOs. The study of South African welfare organisations is driven by two aspects. The first is the impact these organisations have on the country's population. In 2024, an estimated 19.4 million people depended on these organisations for daily survival (National Treasury, 2025: 374). Given the significant impact these organisations have on the country and its people, it is imperative that studies like this provide insight and value for their survival. Second, according to the Statistics South Africa 2019 report, this sector employs more than 1 million individuals, representing more than 10% of the full-time labour market (Stats SA 2019).

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Based on the identified problem, the research examined how the importance of working capital components is determined in welfare organisations in South Africa and the liquidity levels they achieve. A contrast with for-profit organisations was made to understand the variation. Once this was done, the variation in working capital components could be realigned to improve NPOs' growth and survival rates in South Africa.

1.1. Research Scope and Objective

The research question, which provided a clear direction for the study, was the following:

Does the ranking importance of working capital components have an impact on liquidity in non-profit welfare organisations in South Africa?

The main hypotheses of the study were as follows:

- H_1: The hierarchy of working capital components in South African non-profit welfare organisations has an impact on liquidity.
- H_0: The hierarchy of working capital components in South African non-profit welfare organisations has no impact on liquidity.

The main objective was to evaluate the hypotheses to establish the priority of the five components of working capital in NPOs and to determine the liquidity level achieved relative to for-profit organisations. Variations in the comparison were rationalised and recommendations for reorganising working capital components for NPOs in South Africa were suggested. Much focus is placed on for-profit organisations, where shareholder value and incentive-based performance are the rewards (Manzoor et al., 2021:3), unlike NPOs, whose primary motive for operation is survival despite economic turmoil. Given that research on NPOs relative to for-profit organisations is minimal (Choto et al., 2020:589), a study like this is valuable to the non-profit sector, as many NPOs cease to operate due to financial challenges.

2. Theoretical Framework and Literature Review

2.1. Working Capital Framework

The working capital of an organisation comprises five essential components: cash (bank), accounts receivable, inventory, accounts payable and short-term liabilities. Although components are managed independently, together they create a harmonious whole that enables an organisation to execute its working capital policy and achieve financial stability and growth. When this is not done effectively and does not follow the pecking order theory or formulated policies for working capital, liquidity problems that negatively affect the organisation's profitability occur. A review of the literature on working capital in for-profit organisations, from the most fundamental studies for each component over the last decade, provides an understanding of the best applications for each component and their effectiveness.

2.2. Working Capital Literature Overview

2.2.1. Accounts receivable

In Louw et al.'s (2016) study, which focused on retail firms in South Africa, it was found that reducing trade receivables increased profitability in the retail industry. Similarly, Urhoghide and Korolo (2022) examined companies listed on the Nigerian Stock Exchange and emphasised the necessity of effective policies and processes for receivables management to reduce bad debts, optimise cash utilisation and enhance profitability.

In a separate study on South African retail firms, Mandipa and Sibindi (2022) found that a shorter collection cycle positively influenced financial performance. Narain (2022:6) identified five key techniques for effective debtor collections: implementing a clear and consistent credit policy, conducting credit reviews for potential customers, providing detailed invoices with payment options, offering discounts and establishing clear communication channels. Employing these techniques facilitated cash-flow forecasting to predict potential losses or risks for organisations.

Iqbal and Wang (2018) investigated manufacturing firms in Pakistan and concluded that an effective credit policy could reduce the accounts receivable collection period, thereby improving profitability. Silaghi and Moraux (2022) argue that offering trade credit enables businesses to grow and operate more smoothly. Discounts can foster long-term relationships and support buyers' businesses. Hence, price discounts and trade credits are complementary instruments for building strong business relationships.

Contrary to the belief that trade credit merely reduces costs or margins for businesses, Afrifa et al. (2021) provide a different perspective. They argue that by providing trade credit to customers, businesses can move inventory to them earlier, thus reducing holding costs such as insurance, warehousing and security. This alternative viewpoint suggests that trade credit has a net-zero impact on inventory holding costs.

The literature review sheds light on the debate over the speed of accounts receivable collection and the effectiveness of credit policies. Louw et al. (2016) and Mandipa and Sibindi (2022) advocate a reduced accounts receivable collection approach, while Narain (2022) highlights the importance of strong credit policy application to complement and enhance cash management and growth.

These studies demonstrate the significance of effective receivables management policies and processes in promoting financial stability and growth for businesses. Implementing robust credit policies and managing accounts receivable can efficiently balance the benefits of reducing holding costs with the potential for facilitating growth. Offering trade credit to customers can also reduce holding costs for businesses and support growth.

Clear and consistent credit policies, detailed invoices and effective communication channels are crucial for efficient debtor collections and cash-flow forecasting. Moreover, offering trade credit can foster long-term customer relationships and support buyers' business growth. Effective receivables management practices and policies play essential roles in overall financial management for businesses.

The findings of the reviewed studies underscore the importance of adopting a balanced approach to the management of accounts receivable, incorporating robust credit policies, efficient debtor collections and effective communication channels to promote financial stability and growth.

2.2.2. Inventory management

Numerous studies have examined the link between inventory management and organisational performance across countries, including Pakistan, India, South Africa, Nigeria, the Czech Republic, Iran, Argentina, Indonesia and Germany. The following researchers, Dalci et al. (2019), Farhan et al. (2021), Iqbal and Wang (2018), Louw et al. (2016), Otekunrin et al. (2021), Patki (2021), Mandipa and Sibindi (2022) and Urhoghide and Korolo (2022), conducted studies that found a negative relationship between inventory reduction and profitability. Their findings suggest that implementing a working capital management policy leading to lower inventory and higher accounts payable can result in higher profitability.

Louw et al. (2016) specifically investigated the South African retail sector and recommended developing an advanced management system, such as an enterprise resource planning (ERP) system, to optimise inventory and increase profitability. According to their research, the aggressive management of inventory resulted in optimum organisational outcomes. Afrifa et al. (2021) identify three main theories that establish a relationship between inventory and organisational performance: the precautionary motive, the speculative theory and the transaction cost theory. These theories emphasise the importance of considering inventory costs.

Mandipa and Sibindi (2022) examined working capital management practices in retail firms listed on the JSE over a 10-year period and found that inventory reduction positively affected net operating profit margins and return on assets. This suggests that maintaining a lower inventory level can positively affect organisational performance. On the other hand, Otekunrin et al. (2021) examined agriculture and agri-allied companies in Nigeria and found a negative relationship between high inventory levels and profitability. Similarly, Patki (2021) conducted an eight-year study of the Indian retail industry and found that excessive inventory holdings tied up funds unnecessarily and reduced operational efficiency. Companies with lower outstanding inventory achieved higher inventory turnover rates and profit margins.

Profit-oriented organisations strategise their procurement of commodities through supply chain processes to optimise transportation logistics, stock maintenance and assortment, while satisfying demand. Technological advancements play a significant role in enhancing operational efficiency, which positively influences working capital demands, as Ilter (2019) and Kasozi (2017) expound.

If held in excess, inventory, being the most volatile of current assets, can negatively impact an organisation's working capital commitments. This sentiment is evident in the literature reviewed, where Afrifa et al.'s (2021) three motives for holding inventory and Louw et al.'s (2016) recommendation to use ERP systems for inventory management and replenishment are particularly noteworthy.

2.2.3. Cash management

Various studies have investigated different aspects of cash management, shedding light on the factors that influence the amount of cash organisations hold and how they manage it. Jalal and Khaksari (2020) focus on the transaction theory, which suggests that organisations with shorter cash conversion cycles tend to hold less cash. This enables them to invest more in growth activities and investment instruments. Vuković et al. (2022) observe that companies in Balkan countries hold less cash due to favourable external financing sources, leading to increased profitability and business growth. Shubita (2019) conducted a study of Jordanian industrial firms and found that larger organisations tend to hold more cash than smaller ones. However, larger firms also carry more significant debt and experience slower growth. Organisations with multiple sources of cash tend to maintain lower cash levels. Additionally, the net working capital of cash was identified as a predictor of cash holdings within an organisation.

Al-Zararee et al. (2021:229) examined cash management from a financial institution's perspective and discovered that banks may need to extend customer terms and prolong cash transfer cycles due to working capital management issues. Failure to address these issues could harm the relationship with financial institutions and prove costly. Therefore, organisations should borrow within their means and maintain sufficient liquidity to meet regular payment obligations. Dalci et al. (2019) studied non-financial firms in Germany and found that organisational size significantly influences working capital requirements. Small to medium-sized firms tend to expedite accounts receivable collections to reduce cash holdings and improve profitability.

Gul and Sahin (2022) argue for the pecking order theory, stating that organisations prioritise using cash for investment, followed by debt settlement and equity. High-investment firms hold less cash because they rely on internal financing first, keeping excess cash for precautionary purposes. Conducting a cost-benefit analysis of cash holding is essential to finding the appropriate balance of cash reserves. Gao et al. (2021) highlight that cash holdings are influenced by market risk and interest rate costs. When interest rates rise, organisations tend to hold more cash to avoid using financed investments for operating costs.

Hapsari and Norris (2022) observe that profitable organisations in Indonesia invest their accumulated cash in worthwhile projects to generate income. Excess cash does not in itself generate income; effective cash reserve management is necessary. These studies offer different perspectives on cash management, covering aspects such as the appropriate amount of cash to hold, the costs of holding cash, the impact of organisational size and the ability to manage cash internally. Therefore, based on the factors identified, balanced cash holding within organisations is needed.

2.2.4. Accounts payable

Numerous studies have explored the connection between a creditor's payment period and financial performance. Silaghi and Moraux (2022) found a positive, significant relationship between these variables. Similarly, Ibrahim et al. (2021) and Louw et al. (2016) found that extending the creditor's payment period improved an organisation's profitability. Furthermore, Kumaraswamy and George (2019) illustrate trade credit as a relationship-building tool between suppliers and customers, fostering goodwill and loyalty and reducing competition. Their study of Saudi Arabian firms in the energy, materials and capital goods sectors showed that effective credit management can improve an organisation's cash flow and profitability.

Li et al. (2020) examined various supplier payment types, including advance payments, cash, credit, advance-cash, advance-credit and cash-credit. They argue that organisations need to control factors to prevent a high default risk on trade credit. Establishing the optimal selling price, credit period and cycle time can assist in business growth. Machokoto et al. (2022) found that trade credit is the largest and most crucial source of short-term funding, serving as a substitute for bank credit and positively impacting an organisation's value, sales growth, investment and employment.

Moreover, Prsa et al. (2022) examined small and medium-sized enterprises (SMEs) in Croatia and found that trade credit provided a flexible way to use current liabilities and was advantageous due to lower costs. A short delay in payment obligations increases profitability, as the income can be used to generate additional sales without negatively affecting supplier relationships. This approach is considered aggressive in its management of payables. Organisations need to consider the impact of their accounts payable policies on suppliers and establish mutually beneficial payment agreements to promote sustainable, positive supply relationships.

Overall, these studies suggest that increasing accounts payable days can result in higher working capital and improved profitability for an organisation. Maintaining a positive relationship with suppliers and effective credit management are essential to achieving these benefits. Organisations should also consider other payment options, such as terms and

settlement discounts, to manage default risk on trade credit. All of these need to be aligned with cash forecasting and availability. This component of working capital should be placed after accounts receivable and cash.

2.2.5. Short-term liabilities

Rasyid et al. (2018) suggest that organisations should adopt a conservative approach, prioritising long-term over short-term investment in working capital management. Al-Zararee et al. (2021) find that banks often extend credit terms or payment periods to meet their customers' working capital requirements. While this provides the customer with a longer repayment period, it also results in additional costs for the organisation. Therefore, organisations must ensure they meet their commitments on time.

Nicolas (2022) emphasises the significance of short-term financing for SMEs in France. SMEs weigh short-term financing against internal financing, capital markets and financial institutions; however, the opportunity cost of short-term financing is high. Thus, organisations need to focus on permanent financing solutions. Lin and Qiao (2021) propose that economic fluctuations and organisational profits influence bank lending and borrowers' ability to repay loans. Their evaluation of over 16,000 manufacturing companies in China revealed that accounts payable may also serve as an alternative to short-term borrowing.

Gao et al. (2021) stress that borrowing is influenced by risk factors and interest rates. An organisation's ability to manage risk impacts debt pricing or the cost of borrowing. Hence, organisations must maintain a risk-free business to qualify for a well-priced interest rate, which will be determined by available borrowing mechanisms and the amount borrowed.

Prsa et al. (2022) find that SMEs rely heavily on short-term financing due to the increasing difficulty of obtaining financing from financial markets. Nicolas (2022) and Rasyid et al. (2018) debate the use of short-term financing versus long-term financing, which is influenced by the adopted working capital approach and the availability of short-term financing facilities in the market. It is therefore imperative that short-term or long-term borrowing should be the last level of consideration.

2.3. Effective Management of Working Capital

Working capital is the amount of current assets a business uses to generate revenue and pay current liabilities. Current assets consist of inventory, accounts receivable and cash, while current liabilities consist of accounts payable and short-term borrowings. It is important to note that inventory and debtors are components that revolve around cash – the sale of goods and the collection of outstanding amounts owed from accounts receivable (Yao & Deng, 2018). These funds are used to pay service providers and suppliers and are classified as accounts payable. This, therefore, sits on the lower level of the working capital hierarchy. Cash depends on accounts receivable collection and inventory; therefore, accounts receivable should be the highest priority, followed by inventory and then cash/bank.

Some organisations borrow funds that must be repaid from current assets or cash to finance their businesses in the short term. All these components are short-term because their turnaround time is generally within one year. Therefore, working capital is viewed as a short-term financing activity given the turnaround time of these components. This component, based on importance, should follow accounts payable.

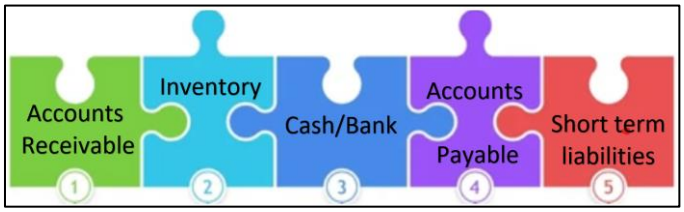

Figure 1 Components of working capital in for-profit organisations

An organisation needs to strike the right balance among the amounts of each component to create the correct equilibrium or scale of balance. Each component should have the appropriate policy or theory applied so that total current assets and current liabilities work harmoniously and no imbalances occur. The five components are like a puzzle that fits together in order of importance (Figure 1). The downside of not having the right complementary amounts of each component is that the organisation suffers illiquidity (Vuković et al., 2022).

The strategies employed in managing working capital can best be described as those of an orchestra conductor. If one instrument in the family is used incorrectly, it can create an imbalance and spoil the entire performance, despite the rest of the instruments playing perfectly. In most organisations, policies are set by the controlling body, which establishes the vision and mission, and the resultant policy document provides guidelines and direction.

3. Research Methodology/Approach

3.1. Research Approach

The research approach applied in this study was determined by the research question, which aimed to test existing theories on working capital management in NPOs. The focus was on understanding the working capital decision-making process and its financial impact on organisations. Given the need for quantifiable data and the intention to test existing sectoral theories, the deductive approach was considered the most appropriate. This choice aligned with the six sequential steps, outlined by Blaikie (2010) and referenced in Saunders et al. (2019:153-154), that needed to be tested in the study.

3.1.1. Research method and design

The importance of research design, which is the master plan that outlines the approaches and processes for gathering and analysing information, depends on the nature of the research problem, the researcher's background and the target audience. Research design comprises three components: a worldview, a strategy and specific methods or approaches to the study. In this research study, which focused on welfare NPOs in South Africa, a mono-quantitative research method, specifically a survey, was chosen. Survey research is used to gather data from a known population using structured questionnaires, which provide a large amount of information at a cost-effective rate. The survey strategy used in conjunction with stratified sampling aimed to yield reliable and valid data to answer the research question. A survey's advantages include its efficiency in terms of time and cost, its ability to cover a wide range of topics and quick access to valuable information. The survey strategy for this study involved questionnaire development, pilot testing, sample planning, data collection and analysis.

3.1.2. Research population and sample

To create a sample that accurately represented the entire target population, probability sampling, specifically stratified random sampling, was chosen to cover all nine provinces of South Africa. The sample frame was categorised and it was determined that studying welfare organisations per strata would provide a fair representation of the country's welfare organisations. The sample frame for the full target population was established with information from the national regulator, the Department of Social Development (DSD), and data from the National Lotteries Commission (NLC), a national government agency that funds NPOs.

To determine the sample size, the researcher used the list of NPOs that received NLC donor awards, which included 1,470 welfare organisations spread across the country. As the welfare sector constitutes the largest portion of the total population (37% and 95,304 organisations), the researcher focused on NPOs within this sector. The required number of samples per stratum was determined to be 626. However, a 15% response bias was accounted for in the total sample unit split per strata/provinces.

The resulting sample of 626 organisations from nine provinces was considered representative and suitable for addressing the research question. The sample reflects 43% of the target population and a proportional allocation of test samples was chosen to ensure compatibility for inferential statistical comparison. While the sample is homogeneous in that it comprises welfare organisations, it is considered heterogeneous because it represents various provinces.

3.2. Research Execution and Analysis

Data collection methods in research encompass various approaches such as observation, interviews, experiments, electronic interviews or surveys, telephone calls, focus groups and archival data. The choice of method depends on the research question, data requirements and logistical and resource considerations, including time, cost and study type. In this study, the required data were the perspectives of finance managers from NPOs on their organisations' working capital management and liquidity positions. As the sample covered nine provinces and contact with participants would be impractical due to high costs, a qualitative study was ruled out and a quantitative approach was adopted.

For the quantitative study, primary data were collected via a survey questionnaire, with sections focusing on receivables, inventory and payables. Likert-scale questions were used to assess the frequency of actions. The survey

questionnaire was structured to probe working capital and its components from different angles and methodologies. It underwent testing to ensure its effectiveness in achieving the study's objectives (Saunders et al., 2019:518).

Descriptive statistics play a crucial role in a quantitative study, allowing researchers to describe and compare variables by focusing on central tendency and dispersion. The data in this study were analysed using SPSS Statistics. Upon receiving the survey questionnaires, the response rate was analysed to assess response bias and Cronbach's alpha was used to assess the consistency of the responses. Software packages such as SPSS calculate Cramer's V statistic, which measures association and is typically used alongside the chi-square test. The scale for Cramer's V ranges from 0 to 1, with 1 indicating a perfect association and 0 indicating no association.

As an alternative to assess associations between variables, phi can be used, with values ranging from -1 (negative association) to 1 (perfect association), with 0 indicating no association (Saunders et al., 2019). In this study, test statistics and p-values were used to evaluate the hypotheses, helping the researcher identify the most effective working capital management components for improving liquidity outcomes and ascertain the relationship between these components and liquidity. This understanding can guide organisations in adopting the best hierarchy for working capital components to prevent liquidity problems.

4. Results and Discussion

4.1. Research Analysis

The five components of working capital – accounts receivable, inventory, cash, accounts payable and short-term liabilities – were analysed against organisations' liquidity to understand the level of association or correlation. This established the level of importance they have to liquidity and determined their hierarchal importance. Using liquidity as a guide is important because it enables a quick cash turnaround.

Accounts receivable was the first component analysed to understand the relationship between organisations' liquidity and the accounts receivable they manage. The tests indicated a strong, significant relationship between these two variables (Chi-square = 9.303, df = 2, $p < 0.010$) (Table 1). Phi and Cramer's V both revealed a significance of 0.010 and an association of 0.153, indicating a strong association (Cohen, 1998).

Table 1 Accounts receivable relationship to liquidity

Chi-Square Tests				**Symmetric Measure**			
	Value	df	Asympototic Significance (2-sided)			Value	Approximate Significance
Pearson Chi-Square	9.303[a]	2	0.010	Nominal by Nominal	Phi	0.153	0.010
Likelihood Ratio	8.893	2	0.012		Cramer's V	0.153	0.010
Linear-by-Linear Association	0.289	1	0.591				
N of Valid Cases	396			N of Valid Cases		396	
a. 0 cells (0.0% have expected count less than 5. The minimum expected count is ,14.39.							

Inventory was analysed next to understand the relationship between the organisations' liquidity and their inventory. The tests indicated a strong and significant relationship between these two variables (Chi-square = 3.415, df = 2, $p < 0.181$) (Table 2). Phi and Cramer's V both revealed a significance of 0.181 and an association of 0.093.

Table 2 Inventory relationship to liquidity

Chi-Square Tests				**Symmetric Measure**			
	Value	df	Asympototic Significance (2-sided)			Value	Approximate Significance
Pearson Chi-Square	3.415[a]	2	0.181	Nominal by Nominal	Phi	0.093	0.181
Likelihood Ratio	3.471	2	0.176		Cramer's V	0.093	0.181
Linear-by-Linear Association	1.704	1	0.192				
N of Valid Cases	396			N of Valid Cases		396	
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 41,77.							

Next for analysis, the cash/bank component was examined to understand the relationship between the organisations' liquidity and their cash/bank. The tests indicated a strong, significant relationship between these two variables (Chi-square = 12.150, df = 2, p = 0.002) (Table 3). Phi and Cramer's V both revealed a significance of 0.002 and an association of 0.175.

Table 3 Cash/bank relationship to liquidity

Chi-Square Tests				**Symmetric Measure**			
	Value	df	Asympototic Significance (2-sided)			Value	Approximate Significance
Pearson Chi-Square	12.150[a]	2	0.002	Nominal by Nominal	Phi	0.175	0.002
Likelihood Ratio	11.938	2	0.003		Cramer's V	0.175	0.002
Linear-by-Linear Association	9.252	1	0.002				
N of Valid Cases	396			N of Valid Cases		396	
a. 0 cells (0.0% have expected count less than 5. The minimum expected count is 28,43.							

Accounts payable was the fourth component analysed to understand the relationship between the organisations' accounts payable and their liquidity. The tests indicated a significant relationship between these two variables (Chi-square = 15.813, df = 2, p < 0.001) (Table 4). Both phi and Cramer's V values were < 0.001 and an association of 0.200.

Table 4 Accounts payable relationship to liquidity

Chi-Square Tests				**Symmetric Measure**			
	Value	df	Asympototic Significance (2-sided)			Value	Approximate Significance
Pearson Chi-Square	15.813[a]	2	<0.001	Nominal by Nominal	Phi	0.200	<0.001
Likelihood Ratio	17.263	2	<0.001		Cramer's V	0.200	<0.001

Linear-by-Linear Association	0.092	1	0.762				
N of Valid Cases	396			N of Valid Cases		396	
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 29, 13.							

The last component for analysis was short-term liabilities to understand the relationship between the organisations' liquidity and the short-term liabilities they managed. The tests indicated a significant relationship between these two variables (Chi-square = 9.601, df = 2, p 0.008) (Table 5). Phi and Cramer's V both revealed a significance of 0.008 and an association of 0.156.

Table 5 Short-term liabilities relationship to liquidity

Chi-Square Tests				**Symmetric Measure**			
	Value	df	Asympototic Significance (2-sided)			Value	Approximate Significance
Pearson Chi-Square	9.601[a]	2	0.008	Nominal by Nominal	Phi	0.156	0.008
Likelihood Ratio	9.580	2	0.008		Cramer 's V	0.156	0.008
Linear-by-Linear Association	7.620	1	0.006				
N of Valid Cases	396			N of Valid Cases		396	
a. 0 cells (0.0% have expected count less than 5. The minimum expected count is 25,27.							

4.2. Outcome of research

Based on the analysis of the five working capital components and their levels of association with non-profit organisations and liquidity, the following hierarchical pecking order was revealed (Table 6).

Table 6 Working capital components hierarchy from research

Working Capital Components	**Value**	**Priority Level**
Accounts payable	0.200	1
Cash	0.175	2
Short term liabilities	0.156	3
Accounts receivable	0.153	4
Inventory	0.093	5

Paying creditors first is most important in NPOs, followed by cash and its management. Reviewing short-term liabilities is prioritised third and accounts receivable is fourth. Finally, inventory is reviewed in association with liquidity.

The analysis of the research sample reveals that only 43.7% of non-profit organisations have a liquidity level of greater than one, while 56.3% have a liquidity level of one and below (Table 7). This is in line with the literature review that found that more organisations are closing down due to financial constraints (liquidity).

Table 7 Liquidity level of research sample

	Liquidity_status	
	<1	>=1
Sample	43.7%	56.3%

This hierarchy of the importance of working capital has a significant negative impact on the sector, as an average of 6 out of 10 organisations face liquidity challenges. Based on this, research hypothesis H_1 is accepted, as working capital components affect liquidity in NPOs. The five components of working capital are important within organisations. This study was undertaken to understand which component, among the others, was most important to NPO welfare organisations in South Africa. The results are displayed in Figure 2.

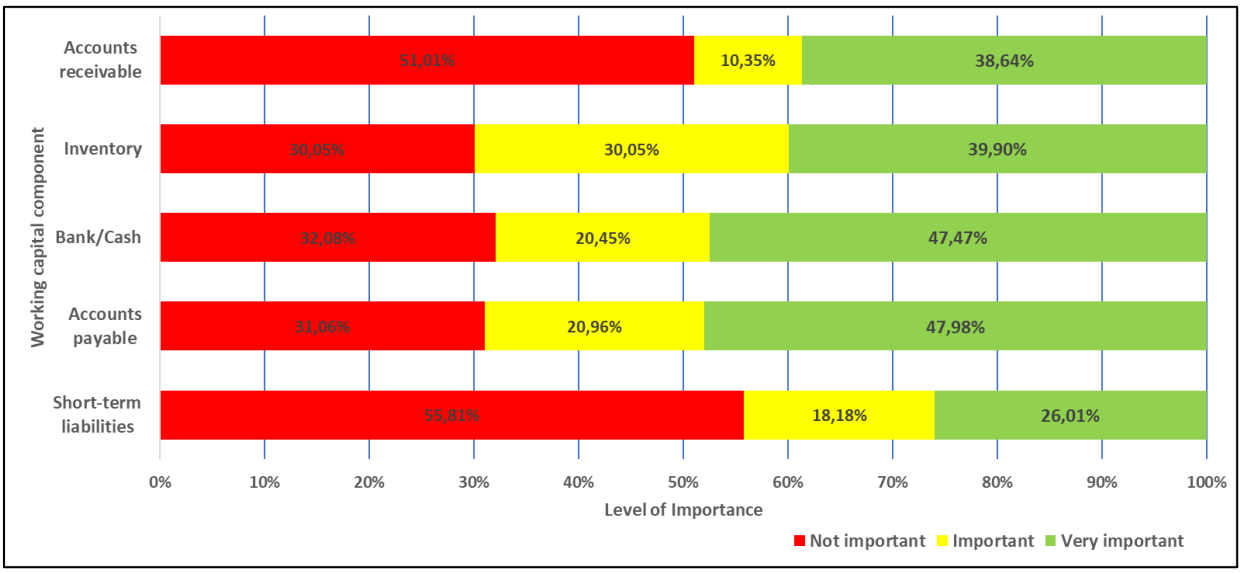

Figure 2 All components of working capital analysed by importance

The analysis reveals the following:

- Organisations assign a high level of no importance to accounts receivable collection, as most of the respondents (greater than 50%) responded to the lack of speedy collection of accounts receivable.
- The next component, which holds a significant amount of working capital, is inventory; only 39.9% of the respondents considered holding a minimum inventory very important, which gives guidance on the significant importance of this component of working capital.
- Cash in any organisation is regarded as an important part of daily operations, and this was established; 47.4% considered this a very important component of working capital.
- When account payments were evaluated, over 47.9% (the majority) stated that payments were very important. This high level of consensus clearly shows that creditors use NPOs as funders of working capital, which could affect their credit status and credit terms.
- A major consideration in any business is the financing of working capital through short-term liabilities and the payment thereof on time. This affects a business's creditworthiness and financing capacity. Over 55.8% of the respondents considered the settlement of short-term liabilities slightly to not important. This response needs to be taken into consideration when determining how financing is used and how interest costs are incurred on short-term liabilities.

Based on this analysis, it is valid to conclude that minimising inventory holding is of the utmost importance to organisations. This is then closely followed by slow payment to creditors, which is not far behind the holding of maximum bank balances. The last two components of working capital importance are the speedy collection of accounts payable and the low importance of repaying short-term liabilities. The inverse relationship of these last two components in the current state of working capital management is ironic.

4.3. Findings in comparison to other research

Working capital has become important in welfare NPOs for two very different reasons: one is managing the organisations themselves on a daily basis and the other is managing their micro-business activities on a daily basis. It is therefore important that a welfare NPO strikes a good balance between these two management activities, as one could overshadow the other and result in the organisation's downfall. The various business methodologies followed by organisations were outlined in the literature review to provide an understanding of how organisations manage these methodologies and theories (Hung & Hager, 2019).

In their study on the financial sustainability of NPOs, Ebenezer et al. (2020) argue that NPOs need to adopt prudent financial management and technology practices to ensure their financial sustainability. Their study complements that of Farhan et al. (2019) by maintaining that the financial sustainability of NPOs is key to development in Africa. The results of their study reveal that sound internal financial management practices are a key component of NPOs' survival. Choto's (2019) study on NPOs in South Africa highlights the importance of sustaining NPOs in the country, as these organisations address the significant inequality in the country. NPOs provide services to South Africa's disadvantaged communities and individuals for whom the state cannot provide. The Choto study examines how NPOs in South Africa can adapt their management strategies to ensure their sustainability and meet that objective, with working capital management as a key area of expertise.

4.4. Moving forward

The literature review on profit-driven corporate entities revealed that the importance of working capital components differs from that of NPOs. It is therefore imperative that NPOs review the importance of hierarchy and assess the risks associated with each component.

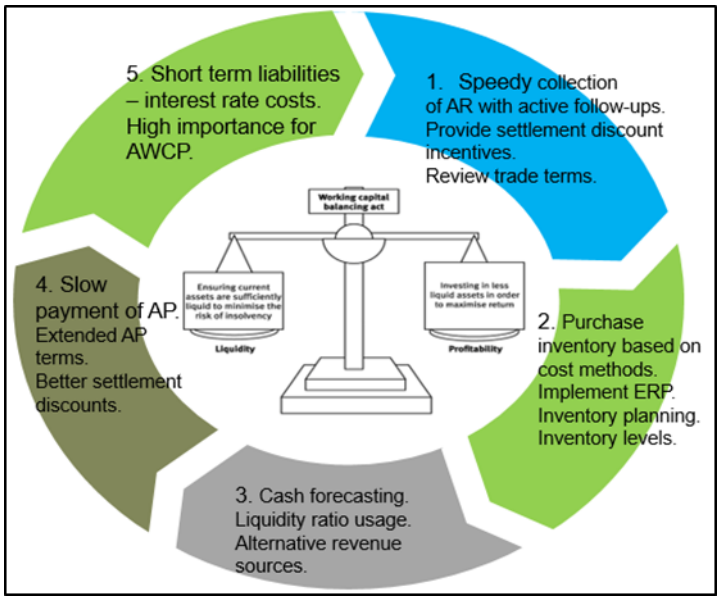

Figure 3 Proposed state of working capital management

When this is done in line with liquidity considerations, organisations can adjust the priority level to Figure 3 for each component to achieve growth and sustainability. This evolutionary rearranging of working capital priority level is more aligned to for-profit organisation. Moreover, based on the literature review on profit organisation it allows organisation to be sustainable and fluid in growth. Studies on NPOs in South Africa are limited due to a lack of focus on their economic importance and their impact on South Africans' livelihoods. Therefore, more focus needs to be placed on these organisations and the sector in general, as it employs just over a million people.

5. Conclusion

Taking into account fluctuations in both internal and external factors affecting organisations, the current hierarchy of working capital components had to be realigned; the relative importance of accounts receivable and inventory, compared to accounts payable, had to be increased. Based on the current state, which emerged from the research study after an analysis of the theoretical literature on for-profit organisations and the research findings on NPOs,

recommendations for the state of working capital management were formulated in Figure 3. The advantages of each component, based on the suggested improvements, are presented in Figure 3, which depicts the overall proposed recommendations of the study.

The proposal is that the levels of importance of working capital components be adjusted by NPOs. Accounts receivable must be assigned to priority level 1, as this is the primary source of cash for organisations. This will directly impact the level 3 item – cash. The direct relationship between accounts receivable and cash affects liquidity. Between accounts receivable and cash, inventory is placed because the cash held is affected by the inventory purchased. Therefore, the correct and effective level for inventory is level 2. The fourth level of importance is accounts payable, which will leverage level 3 cash availability to honour its payment schedules. The last level is short-term liabilities, which is the final defence of organisations' funding (Mohanlal, 2023). These liabilities are also managed by level 3 cash availability.

The priority level of the components of working capital can be adjusted based on the type of organisation but the pecking order of the components should be assessed based on the organisation's liquidity risk tolerance.

Compliance with ethical standards

Disclosure of Conflict of interest

No conflict of interest to be disclosed.

Statement of informed consent:

All participants in the survey provided consent.

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Author's short biography

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Dr. Rakesh Mohanlal has been a corporate executive for over 27years within the Finance and Operations areas of business. He has worked for four multi-nation organisations from various parts of the world and therefore has been exposed to a multitude of financial management methods and models. He has also been a strong advocate for socio-economic programs within South Africa. His passion for the subject had directed him in completing his PhD in Finance within the Non-Profit sector. Rakesh holds a Bachelor's degree in Finance and Economics from the University of South Africa as well as a Postgraduate Diploma in Business Management, a Master in Business Administration (MBA) from the University of Kwa-Zulu Natal, Advanced Diploma in Organisational Leadership and finally a Ph.D. in Finance and Economics from North-West University.

He has over the last five years been involved direct implementation of socio-economic projects within South African non-profit sector and an assertive leader in this area of expertise. Based on this he has recognised the tremendous amount of effort needed in the non-profit sector of South Africa.