The impact of crisis event on the financial managers behaviours concerning the management of the liquidity risks for companies in France.

Comparison between the Small & Medium Enterprises and large companies.

By

GREWEY Nicolas

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Research advisor: Quinn Andrew
DECLARATION

I, Nicolas GREWEY, declare that the work done in this dissertation is entirely my own work, except where otherwise stated, and has not been submitted as any type of exercise for a degree at this or any other college/university.

It is being submitted in fulfilment of the requirements for the degree of MBA Graduate Finance at Dublin Business School, Dublin.

Signed: _____________________

GREWEY Nicolas

May, 23rd 2014
TABLE OF CONTENTS

DECLARATION ................................................................................................................................. 2
TABLE OF CONTENTS .................................................................................................................... 3
LIST OF ILLUSTRATIONS .............................................................................................................. 6
ACKNOWLEDGEMENTS .................................................................................................................. 7
ABSTRACT ..................................................................................................................................... 8
I. INTRODUCTION .......................................................................................................................... 9
   A. Background ............................................................................................................................ 9
   B. Suitability of the researcher .................................................................................................. 10
      1. Professional experiences ................................................................................................. 10
      2. Educational experience .................................................................................................... 10
   C. The research subject, question and objectives ................................................................. 11
   D. The scope and the limitations of the research ....................................................................... 12
   E. The organization of the dissertation .................................................................................... 13
II. LITERATURE REVIEW .............................................................................................................. 14
III. RESEARCH METHODOLOGY .................................................................................................. 22
   A. Research Questions ............................................................................................................ 23
      1. How are composed the working capital management and the liquidity risk and what factors can influence them? ....................................................................................................... 23
      2. Why are the working capital management and the liquidity important for companies today? .............................................................................................................................. 23
      3. How do financial departments of small, medium and large companies to manage their working capital and liquidity risk in reality? .......................................................... 23
   B. Proposed Methodology ....................................................................................................... 25
      1. Research philosophy: The positivism and the interpretivism ........................................... 26
2. Research approach: The inductive approach .......................................................... 28
3. Research strategy: The grounded theory ............................................................. 29
4. Research Choice: The mono-method ................................................................. 29
5. Time Horizon: The cross-sectional .................................................................... 30
6. The qualitative approach ..................................................................................... 31
7. The non-probability sample technique ............................................................... 32
8. Plan .......................................................................................................................... 33

IV. DATA ANALYSIS .................................................................................................................. 37

A. How are composed the working capital management and the liquidity risk and what factors can influence them? .................................................................................................................. 37

1. The nature of the business ..................................................................................... 38
2. The size of the business ......................................................................................... 38
3. The production policy ............................................................................................ 39
4. The rate of stock turnover ..................................................................................... 40
5. The working capital cycle ..................................................................................... 41
6. The credit policy .................................................................................................... 45
7. The business cycle ................................................................................................ 47
8. The rate of growth of a business .......................................................................... 49

B. Why are the working capital management and the liquidity important for companies today? ........................................................................................................................................... 50

C. How do financial departments of small, medium and large companies to manage their working capital and liquidity risk in reality? ............................................................................................................. 56

1. How SMEs manage their working capital and liquidity risk ................................ 56
2. How large companies are managing their working capital and liquidity risk ...... 57
3. Comparison between the management of SMEs and larger companies .......... 58

V. CONCLUSIONS ......................................................................................................................... 62

VI. SELF REFLECTION .................................................................................................................. 65

A. What did I learn? ........................................................................................................... 65
B. Will it be useful for the future? ................................................................. 67

BIBLIOGRAPHY ................................................................................................. 69

APPENDICES .................................................................................................... 74

A. The Major external source of finance ........................................................... 74

B. Major internal source of finance ................................................................. 75

C. Sources of cash inflows and outflows .......................................................... 76

D. Working Capital Management Balance ....................................................... 77

E. The working capital cycle ............................................................................ 78

F. Top of mind? Cash management as a strategic priority .............................. 79

G. Payback period ............................................................................................. 80

H. Net Present Value (NPV) ............................................................................ 81

I. Distribution of firms according to their category in 2010(%) ....................... 82

J. Distribution of employment depending on the business category in 2010 (%).. 83

K. Distribution of turnover depending on the business category in 2010 (%) .......... 84

L. Distribution of added value based on the business category in 2010 (%) .......... 85

M. Distribution of gross investment in tangible assets excluding contributions by
business class in 2010 (%) .................................................................................. 86

N. Distribution of turnover for export by enterprise category in 2010 (%) .......... 87

O. Translation of the interviews .................................................................... 88

1. Interview number 1 ...................................................................................... 88

2. Interview number 2 ...................................................................................... 96

3. Interview number 3 ...................................................................................... 104

4. Interview number 4 ...................................................................................... 110

5. Interview number 5 ...................................................................................... 113
LIST OF ILLUSTRATIONS

Figure 1 : The research 'onion' ................................................................. 25
Figure 2 : The Working Capital Cycle of an industrial company ..................... 42
Figure 3 : The Working Capital Cycle of a services company ............................. 43
Figure 4 : The Operating Cash Cycle ................................................................ 44
Figure 5 : ILO - Unemployment rate in France (2003 to 2013) ........................... 48
Figure 6 : Evolution of business failure 2000 to 2013 in France .......................... 53
Figure 7 : Payment incidents on commercial paper for failure to pay and failure in France (Year over Year in % of cumulative twelve month - December 2001 to May 2011) ............... 54
Figure 8 : The effect of payment incidents on the failure rate by sector .................. 55
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ABSTRACT

The impact of crisis event on the financial managers behaviours concerning the management of the liquidity risks for the SMEs in France.

*Comparison between the Small & Medium Enterprises and large companies.*

By GREWEY Nicolas

Interviews were undertaken with six professionals of the financial segment from SMEs, an International company and an investment fund on the problematic of the liquidity risk. Firstly this thesis will present what are the different factors that are influencing the working capital management and the liquidity risk. Furthermore it will also study what were the impact of the crises events on the liquidity of the companies. Secondly it will also study why the working capital management and the liquidity risks are important parts of the management of the companies today. Thirdly, this thesis will analyse what were the impact of the crises on the behaviours of the financial managers that are confronts to the liquidity risks.

The first objective of this thesis is to analyze how the companies view this major risk and how they manage it.

The second objective of this thesis is to help to understand, what are the reasons behind the actions they took and still take at the present time concerning the management of the liquidity risk.

Finally, the third objective of this thesis is to analyze and criticize the behaviours of financials managers concerning this risk.

May 23, 2014
I. INTRODUCTION

A. Background

The working capital is the liquidity, the cash which is available to help any company to manage its different operations. This help to pay the employees, the inventory and finance the spending in the short term or give the possibility for a company to invest in an important project to achieve strategic objectives. If a company is left without liquidity, it can no longer pay its expenses and as a consequence will have no other choice than to increase its debt. If the problem isn’t solve correctly and rapidly, it will certainly go bankrupt.

Furthermore the financial health of a company is also analyzed by how it manages its cash flow stream. And Bhunia (2010) reported that because of this day-to-day operations the analyze of the liquidity risk is a major factor for the company and for the external agents that want to be involve with the company as they will be dependent to its situation.

Many companies went bankrupt because they didn’t managed properly their working capital as they didn’t took into account their short term disturbance of the cash flow and as a consequence closed their doors. It is so a critical factor of a business to know how to manage its working capital and liquidity risk and to know what level of risk can be taken.

“Working Capital Management is an effective lever to increase cash flow and preserve, or even to enhance company value. “But more importantly, for many companies today, it may be the necessary key to survival.” (Laura Greenberg, 2009, p 50)

Although the concept of working capital is easy to understand, it is a different story in its application due to the complexity of the relationships that a company may have when doing business with its different partners which could be the shareholders, the banks, the suppliers or even the customers, even during a favourable economic environment. And so, during and after the financial crises of 2008, the fact that the companies suffocated and met difficulties with the credit crunch to attain enough liquidity wasn’t a surprise.

As a consequence the problematic of how Small and Medium Enterprise (SME) are managing the factors that influence the working capital and the liquidity risks is actuality.
Moreover for the majority of the companies, the working capital management is in the top priorities as 83% of them are thinking that "it is among the top five priorities" (Andrew Ashby, Roger Bayly, 2011, p 9) (Appendix F).

The working capital and the liquidity risk are factors which are concerned with calculations and a logical approach as they are the core of the financial management of a company. The ratio analysis is a conventional method to evaluate the company financial statement and create requirements needed to understand the financial situation of the entity (George et al. 2005)

Nevertheless, what which at first seems to be only guided through logical actions with the help of numbers are between the hands of financials managers that have their own experiences and personalities. Given that the management of thus two factors are between the hands of financial managers which is implying a human factor that can influence the way the management is done inside a company. As according to Bates (2009) there are different reason that can explain why the companies has the motivation to hold the liquidity assets. Nevertheless there still exist a lack of information about the impact of crisis events on the comportment of the financial managers which manage the working capital and the liquidity risk of companies.

B. Suitability of the researcher

The topic of this thesis wasn't choose randomly as it was due to my professional and academic experiences.

1. Professional experiences

I have a particular interest on this topic as a researcher because of my previous internships, as I worked as an assistant of the Chief Financial Director, a loan manager and as an auditor's assistant where I was able to help to manage, analyze the financials factors of a company. I am concerned about the problematic of the working capital and liquidity management and it represent a domain where I would like to develop an expertise and knowledge.

2. Educational experience

Before being a student at the Dublin Business School, I studied Finance during five years at the ISEG Strasbourg and Paris (European Higher Institute of Management) to earn a bachelor in Finance and a Master in " Finance specialty Audit and Management Control". During thus five years I studied the theories and the method of calculation to measure and analyze the
financial health of a company. The MBA Finance Dublin Business School provided me knowledge about a more global and international view on the finance's segment which isn't limited with the boundaries.

C. The research subject, question and objectives

The focus of this thesis is to analyze and to criticize the behaviour of the financials managers of SMEs towards the way they manage the working capital and the liquidity risk in reality in comparison with the large companies. Moreover a pertinent research question has to be clearly defined (Bryman,2008). So the thesis working title is:

"The impact of crisis event on the financial managers behaviours concerning the management of the liquidity risks for companies in France. Comparison between the Small & Medium Enterprises and Larges companies."

And the research question is the following:

"How financial department of small, medium and large companies do manage their working capital and liquidity risk in reality regarding the different factors that can impact them?"

To be able to answer this question, here are the following objectives:

- To explain how are composed the working capital management and the liquidity risk and what factors can influence them.
- To explain the reasons of the importance of the working capital management for companies today.
- To determine how the financial department of Small and Medium Enterprise and large company mange their working capital and liquidity risk in reality.
  - To analyze How SMEs are managing their working capital and liquidity risk.
  - To analyze how large companies are managing their working capital liquidity risk.
  - To compare the management of the working capital and liquidity risk between the SMEs and the large companies.
o To explain and to criticize the behaviour of the financial managers on how they manage the working capital and liquidity risk.

**D. The scope and the limitations of the research**

The dissertation is focus on how companies are managing their working capital and liquidity risk. Nevertheless, the different observations that will be done in this thesis are subject to a generalization as only three SMEs and one large companies were interviewed which doesn't give a quantitative view which is the reason why this dissertation is a qualitative research. Moreover the SMEs are French companies and the large company is a German company which has a part of it activity in France. As a consequence the problematic of the dissertation is limited to the country of France. Also, the behaviour which will be analyze is as consequence subject to the French culture for the SMEs and the German Culture for the large company.

The recipients of the research

The main recipient of this thesis are:

- The Dublin Business School which is the school where I did my MBA Finance,
- The Liverpool John University which is the awarding body,
- The researcher's supervisor, Professor Andrew Quinn,
- Nicolas Grewey, the researcher of this thesis for the MBA Finance in the DBS.

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E. The organization of the dissertation

The first chapter concerns the introduction of the thesis which explain the different parts of the subject chosen, the research question, the objectives and the scope and limitations of the research.

The second chapter is the Literature Review which provide information of pasted research around the subject. It summarize the academic papers which were used in this thesis. As a consequence it help to define what are the theories and how a company should manage the working capital and the liquidity risk.

The third chapter is the research methodology which provide information on how the methodology of this dissertation was drove. It explain the research philosophy, approach, strategy and choice which were chosen on the data collection.

The fourth chapter is the Data analysis which represent the results of the primary research which have been found.

The fifth chapter is the conclusions resulting from the analysis of the results. Moreover, it also recommend other question on the subject that should be searched.

The sixth chapter is the self reflection which is related to what the research learned and experienced in the year and during the writing of his dissertation.
II. LITERATURE REVIEW

The companies have at their dispositions different sources of finance which are split in two between the internal and the external sources of finance (Appendix A&B). The external sources need the permission of an external agent of the company to finance as for example the first external agent of a company, the shareholders or the bankers. Nevertheless, the internal source come from the management decisions which is done in the company and so doesn’t need an agreement from outside the entity. As example, the retained profits may be retained by the director of the company to be invested in a project for the benefits of the company, making it a source of internal financing.

Moreover, thus two categories can be segmented further between the long-term and the short-term. There isn’t a clear definition of the difference between a long and a short-term finance but generally, it is agreed that a short-term source of internal financing cannot exceed one year.

Thus long term investment will bring future cash flows for the company as they will expect a good return if and only if, they also paid attention to their short-decisions concerning their current assets and the current liabilities.

Cash flow refers to the movement of cash in or out of an account, a business or an investment (Appendix C). When cash inflow exceeds outflow this is generally considered being a sign of good financial health for the companies.

And if a company has a current assets situation which is low, then it means that the entity will certainly meet some difficulties to continue its operations and it means that the return on investment isn't appropriate (Horne and Wachowicz, 2000). Moreover, as the treasury level is influenced by external factors, the company has to pay attention to its environment and could take as a remedy some drastic decisions on the way the profits are disposed in the cash-flow.

The cash flow is essential for the survival of the companies because it give the opportunity to the companies to pay all its stakeholders which are, the shareholders, the suppliers, the lenders, the government and the employees.

The cash flows are divided in three categories; the operational cash flow, the investment cash flows and the financial cash flows. According to P. Atrill the cash flows have a direct impact on the working capital because “it is vital for a business to have sufficient liquid resources to
meet its maturing obligations, as failure to do so can have disastrous consequences”. (P. Atrill, 2009, p 39)

To be more specific, the cash flows will have an impact on the current liabilities and on the current assets. The current liabilities can be composed of trade payable, other short term loans and overdraft while the current assets can be composed of the cash, the short-term investments, the trade receivables and the inventories which include the raw material the work-in-progress and the finished products. The difference between the current assets and the current liabilities is called the “net working capital”.

During and after the financial crises of 2008 the banks and the companies were running out of liquidity as the exchange of money between the banks was frozen. As a consequence, the management of the working capital became even more important and is a top priority for the companies as 83% of the companies think that “it is among the top five priorities”. (Andrew Ashby, Roger Bayly, 2011, p 9) (Appendix F)

As it is not logical to speak about the short-term source of finance without talking about the long-term source of finance, we can’t speak about the working capital and separate it from its management possibilities.

According to Pindado (2001), the optimal level needed by a company is done by the working capital which is composed in the basic cash management. Nevertheless the optimum cash level is influenced by outsiders of the concept of the treasury management and if so the company needs to do more than just maximized the process of the cash flow. For Maseda (2001), It is also linked to the concept of monetary theory that explains that the first reason of the cash management are the transactions and precautions. However, they were soon joined by the speculations and so taking it closer to the overall concept of treasury management in the broad sense of the term (Maseda, 2001). Moreover, according to Myers (1984), the treasury management propitiates the development of administrative techniques conducive to optimising the level of disposable assets to be maintained by a company.

The working capital management tries to achieve an optimum balance between ensuring that there is a sufficient levels of working capital for the daily operations (liquidity) and that the costs associated with the working capital are minimized. The working capital management manages inventories, receivables, payables, cash and overdraft to minimize the risk of insolvency while maximizing the return of assets.
The problematic is as a consequence to be able to obtain the trade off between the liquidity and the profitability (Raheman et all, 2007). But as the liquidity risk depend on the situation of a particular company, there is no specific rule that explains how to reach an optimal level of liquidity that a firm would possess to get a positive impact on its profitability.

The objectives of the working capital management are to improve the profitability, to maximize the shareholder wealth and to improve the liquidity to ensure that the company will still be able to pay its liabilities when they are mature.

The objectives of the working capital management are according to Eddie McLanney “the same that for non-current asset and long-term financing decisions. This is typically the maximization, or at least the enhancement, of shareholders’ wealth. This will be achieved by optimizing positive cash flows through striking an appropriate balance between costs and revenues, on the one hand, and risk, on the other.” (Eddie McLaney, 2009, p. 350)

There are different factors that influence an investment decision, they are the level of the risk of an investment, the inflation rate or the opportunity cost for example. Mainly, this decision is directed with the help of different tools that encompass the investment appraisal. According to Petter Attril “investment appraisal is a very important area for businesses” (Petter Attril, 2009, p.121)

A company will lose money if it has a bad investment decision if it doesn’t make the money work because of the time value of money. When the companies are investing in a project, they are doing a bet on the future. Its profitability should depend of its risk and vice versa.

An investment decision will have the consequence to bring a certain amount of cash outflow which will have an impact on the liquidity of the company if it comes from an intern source. The expected result will be for the board of governance to receive enough cash inflows in the future to be profitable.

It “allows companies to continue to generate cash flows in the future or to maintain the profitability of existing business activities. Typically, capital investment projects will require significant cash outflows at the beginning and will then produce cash inflows over several years.” (Watson, Denzil, 2013, p 171)

Four main methods are known to select the most profitable investment and evaluate them as their result will determine the profitability of the company for the shareholders in the future.
➢ The Payback method
➢ The return on capital employed method
➢ The Net present value method
➢ Internal rate of return method

“A company seeks to select the best or most profitable investment projects so that it can maximize the return to its shareholders.” (Watson, Denzil, 2013, p 171)

The main issue of this objective is to know how to manage the trade off between liquidity and profitability.

The first extreme situation would be that the company possesses too much cash. That means that they don’t manage correctly and don’t do enough investment. As a result this situation will be unprofitable for the company as a company needs to do investments to receive future inflows and be profitable.

The second extreme situation would be that the company has very little cash which means that they invest too much relatively to their amount of cash. As a result this situation will be risky for the solvency and the safety of the company. (Appendix D)

The managers of a company need to well estimate the amount of cash for all the operations, manage the times to collect the incomes and to pay the charges and to invest with the liquidity assets to avoid a gap in the trading cycle because of the lack of cash and picture an investment policy on liquid assets. It will thus give the possibility to convert the assets into cash in case the company has no more cash (Kamath et al. 1985)

Operating cash flows generated by assets will affect continuing firm liquidity. It is not only because of the value of liquidation (Soenen, 1993).

There is a method to help to measure the liquidity of a company by using some specific liquidity ratios. The first ratio is call the current ratio which give the possibility to compare the situation of the current assets of a company to its current liabilities. The second ratio is call the quick ratio that went deeper in the thinking as it also withdraw the value of the inventories. And this last point is especially important as the companies have to know that even if they want to sell their inventories because of the lack of liquidity, they still need a customer to buy it. (Chinmoy Gosh 2009)
To analyze a company, the analysts uses the liquidity ratio. Nevertheless, the liquidity ratios are not perfects as the vision that they can bring is limited. The understanding of a company situation can even be misunderstood if it has a specific income capability such as a seasonal practice that as a specific cash inflow process (Gibson, Charles H. 1991).

But, the cash flow ratios still give a picture of the company. Given that if it has a liquidity problem that is in correlation with the ability to pay the short-term debt, it will be seen, as the ratios compared the income generated through a certain period, so the different cash inflow from the operations with the short-term debt. One of this ratio, the operating cash flow ratio is calculated by dividing the cash flow of the operations with the current liabilities that will measure how the current liabilities is covered with the cash flow generated thanks to the company exercise (Mills, Vamamura: Journal of Accountancy 1998).

Nevertheless, it has to keep in mind that the cash flow ratios interpretation differ from one segment of the industry to another and it is the role of the reader to analyze the numbers according to the environment where the company is installed (Lauri Phillipps).

Still, the ratio analysis is a conventional method to evaluate the company financial statement and create requirements needed to understand the financial situation of the entity (George et al. 2005)

The working capital, the liquidity margin comes mainly from the day-to-day operations of a company where different elements are linked together and is call the “working capital cycle”. (Appendix E)

The day-to-day operations and the relationship between the liquidity and the profitability can be seen with the use of the Cash Conversion Cycle as according to Eljelly (2004) it is important to measure the profitability of a company by using the current ratio that shows clearly margin that has the entity to manage its liquidity risk. And Bhunia (2010) also reported that because of this day-to-day operations the analysis of the liquidity risk is a major factor for the company and for the external agents that want to be involved with as they will be dependent to its situation.

A study of liquidity is of major importance to both the internal and the external analysts because of its close relationship with day-to-day operations of a business (Bhunia, 2010).
There are different strategies to help to manage thus different factors; the Finance Mix with the matching policy, the conservative Policy or the aggressive Policy and the optimum mix that should help the companies to have an optimum level of liquidity so that it can maintain its different operations.

According to Bates (2009) there are different reasons that can explain why the companies have the motivation to hold the liquidity assets. They are explain through these different theories which are the following:

The Precautionary motive involve that a safety amount of liquidity is secured if there is an unexpected problem. Nevertheless the amount of liquidity that has to be retained is function of the capacity of the company to predict the future cash flows and their capacity to borrow in a short-term period (Opler, Pinkowitz, Stulz, and Williamson, 1999). According to Keynes (1936) the Precautionary motive is the need to hold money in case of an unexpected cash outflow situation.

The transaction motive that has as a main objective to hold cash to answer normal cost that are link to the activity of the company's ongoing operation (Miller and Orr, 1966).

The tax motive involves that the company could not have the liquidity capacity to pay the tax at a certain moment of time and as a consequence it is a possibility for them to liquid their assets as they lack cash to pay (Foley, Hartzell, Titman, and Twite, 2007).

The agency motive involves the decision making of the financial managers that prioritize the fact to keep the liquidity in place of paying high dividend to the shareholders during a period of time when the opportunities are lacking (Jensen, 1986).

As there are different motivations to hold liquidity, there are commons factors which have an impact on the level of liquidity of a company such as the investments taken, the capital structure and the cash flow management (Opler et al. 1999). There are three different theories that demonstrate how a company can manage its liquidity; the Trade off Theory, the Pecking Order Theory and the Agency Theory.

The trade off theory manages the relationship between two facts. It use the concept of the opportunity cost to compare the cost of holding the liquidity to receive interest with the cost to invest in liquid assets (Ferreira et al. 2004).
The Pecking Order Theory, according to Myers & Majluf (1984) presents three sources of basic financing which are, in order of priorities, the retained earnings, the debt and finally the equity in the last resort. Which means that for this theory, there is an hierarchy for using the financing sources.

The Agency Theory which is according to Jensen (1986) compromises the relationship between the principals such as the shareholders and the managers that are considered as the agents of the principals. The problematic of this theory starts when the goals of the principals and the agents aren't the same. The problem increases when the principal isn't able to check the work of the agent. With this difference, the principals and the agents have a different behaviour towards the risk and may take different actions.

These theories if not well managed can cause a brief stop in the operations of a company that can impact the accountancy. According to Calvo (1998), a stop can result in bankruptcies, destruction of human capital and the local credit channels.

According to Almeida et al (2004), the financial pressure will change the management of the cash holding in the companies and in this situation, will more rely on the internal cash flow to build their cash holdings while the companies that aren't constrained will do the opposite.

There is also a negative relation between the amount of bank's debt and the level of cash holding which seems to be the reason why companies seem to prefer a low level of cash. Moreover the study also puts in light that companies that are in countries with a protection of the investors' rights and a centralized business system seems to keep a lower level of cash. And according to Han and Qiu (2007), the companies that suffer from financial pressure increase the amount of cash they keep to answer the riskier volatility of the cash flow while the companies that don't have this limitation will not show this behaviour.

For Duchin (2010), there is an association between the cash holding of the companies and their diversification such as the companies that are more diversified will hold lesser cash than a company that has a mono-risk given that by diversifying their offer they will also diversifies the risk taken in their investment opportunities. It also has a better impact for companies that are under financial pressure.

Moreover Haushalter (2007) adds that the company's investment, financing and product market environment determine the balance of the corporate cash holdings. And according to
Fresard (2010), the companies' cash holdings influence strategically the product market outcomes.

In a long-term point of view a company's financing constraints has an important impact on the strategical decisions as for example to pursue new investments and innovations (Schroth & Szalay, 2010).
III. RESEARCH METHODOLOGY

According to Somekh and Lewin (2005) the methodology is both "the collection of methods or rules by which a particular piece of research is undertaken" and the "principles, theories and values that underpin a particular approach to research" (p.346) and in the same time Walter (2006) define it as a frame of reference influenced by the "paradigm in which our theoretical perspective is placed or developed" (p.35). Moreover according to Mackenzie and Knipe (2006) the methodology is a comprehensive approach to research linked to the paradigm or theoretical framework while the method refers to systematic modes, procedures or tools used for collection and analysis of data.

The intention of this study is to analyze and evaluate the importance of the working capital management and the liquidity risk for the companies. It is also to identify what are the differences between what it is said in the books, the theories and what really is happening in a more realistic point of view. Moreover this study also has as object to take into consideration what are the differences between small, medium and big companies and so, to light and compare them. And furthermore, understand the comportment of the financial managers against the liquidity risk. This part of the study is focused on the details of the methodology behind the research which include different points such as the research design, the data collection, the methods to analyze it and the different problematic that the researcher is confront to.
A. Research Questions

The research questions are described as a key factor that guide the research process for the researcher Saunders et al. (2007). So due to their importance, they have to be well defined to help the researcher to complete clear objectives. As a consequence the following questions have been asked to clearly identify and evaluate the working capital and the liquidity risk management aspects for the companies.

1. How are composed the working capital management and the liquidity risk and what factors can influence them?

The reason behind this question is to allow the researcher to earn a comprehension of the different factors that are within the management of the working capital and the liquidity risk in theory for the companies.

2. Why are the working capital management and the liquidity important for companies today?

After having analyzed the environment that is within the management of the working capital and the liquidity risk, this question will help the researcher to seek the information relating to the impact that a realistic environment has on the companies and their management of the working capital and the liquidity risk.

3. How do financial departments of small, medium and large companies to manage their working capital and liquidity risk in reality?

This is an important question, as it will help the researcher to identify the gap between the theory and what really happen in the reality as what is the truth behind the books. This question also has the other purpose to show how the companies today perceive these two factors which are, the working capital management and the liquidity risk. This question also has the purpose to compare the management between small, medium and large companies. Last but not least it will also analyse and criticize the behaviour of the financial managers against the liquidity risk.
After the questions have been prepared, the researcher will try to verify the following hypotheses:

H1: The way the department of finance manage their working capital and liquidity risk is in function of their micro-environment situation.

H2: Financial directors and managers manage their working capital and liquidity according to their professional experience and history and not blindly to conceptual strategies and theories.

H3: Companies can't avoid the risk and the impact of it when they make their decisions, they can only minimize their effect when they are unlucky.

H4: Financial managers tend to overvalue the risk.
B. Proposed Methodology

This research is planned to analyse how I can manage the liquidity of a company and the different risks resulting. As a consequence, to supervise the research I will adopt the positivism and the interpretive philosophies. The approach will be inductive by using qualitative data that will be collected with interviews which follow the mono-method.

I will in the next part explain the decision behind thus different choices and use the research process “onion”.

Figure 1: The research 'onion'

Source: Saunders, Lewis and Thornhill (2009, p.108)
1. Research philosophy: The positivism and the interpretivism

Conforming to the research “onion” model, every step in the process is important. The research philosophy can be comprehended as a mental impression concerning the selection, the interpretation and the examination of the data that has been collected. “The research philosophy you adopt contains important assumptions about the way in which you view the world.” (Saunders, Lewis and Thornhill, 2009, p. 107).

The researcher, to develop a philosophical perspective has to speculate on two dimensions which are the nature of society and the nature of science (Burrell and Morgan, 1979). It exist two theories about the nature of society. The first one put the society as a steady and connected entity while the point of view of the sociology of radical change put the society as an entity with rivalry and the belief of mankind to be free against the hierarchy and the structure of the society (Burrell and Morgan, 1979).

The other theories is about the nature of science can be define with two philosophical approaches which are the subjective approach and the objective approach. Inside of these two important philosophical approaches are diverse core assumptions such as the ontology (reality), epistemology (knowledge), human nature (pre-determined or not), and methodology (Holden and Lynch, 2004).

The ontology involve with the nature of reality and the thinking that the researcher have an assumptions on the way the world work and the engagement defended to a particular view. Two aspects reside inside this concept, the objectivism and the subjectivism. The objectivism concern the position that social entities can exist in reality external to the social actors involved with their existence. The subjectivism in the other hand perceive that the social phenomena are created from the perceptions and consequent actions of the social actors concerned with their existence (Saunders et al, 2009).

The Epistemology is involved with the study of knowledge and also what we can accept as being a valid knowledge (Collis and Hussey, 2009).

The Epistemological problem discuss about the question of what is or should be regarded as adequate knowledge in the discipline. According to Saunders et al (2007), the Epistemological approach is composed in three different segment which are the positivism, the realism and the interpretivism.
As see above, different philosophies exist in the research “onion” created by Saunders. For this research, I will follow in majority the interpretive philosophy and in a less proportion the positivism philosophy.

The positivism philosophy is due to the fact that, the researcher will try to analyze the more objectively the different steps of the research and expose general financial concepts concerning the working capital management and the liquidity risk in a way “similar to those produced by the physical and natural scientist” (Remenyi et al., 1998).

Furthermore, after presenting the different facets of the factors that involves our questions, the researcher will follow the interpretive philosophy given that business and financial situation are not only difficult as they can also be unique, and so can’t be translate as a law-like generalization “the circumstances of today may not apply in three months’ time then some of the value of generalisation is lost” (Saunders, Lewis and Thornhill, 2009, p. 117).

As a consequence the researcher will also aim to understand the person comportment, “advocates that it is necessary for the researcher to understand differences between humans in our role as social actors. This emphasizes the difference between conducting research among people rather than objects such as trucks and computers.” (Saunders, Lewis and Thornhill, 2009, p. 116).

The interpretive philosophy is affiliated to this research as it will help to supply the comprehension of the working capital management and the liquidity risk.
2. Research approach: The inductive approach

The following step after the research philosophy is the research approach. The research approach is split into two categories, the deductive approach and the inductive approach. For this research, the choice has been focused on the inductive approach for different reasons.

First, the inductive approach is used for usually testing a theory and is recommended for the interpretive philosophy. It means to first collect the different data and after this step, develop a theory which is resulting of the data analysis.

Secondly, this kind of approach helps to examine the specific problem and tend to find the reason behind it. As a result, it will analyze and formulate an idea. According to Rocco et al (2003), the inductive logic and qualitative methods are generally employed with the goal of understanding a particular phenomenon of interest within its social context.

Thirdly, in comparison with the deductive approach it gives more flexibility for the structure that gives the possibility to change of the research emphasis as the research progresses. Moreover the need to generalize decreases and as a consequence it needs a closer comprehension of the research context.

“Research using induction is likely to be particularly concerned with the context in which such events were taking place. Therefore, the study of a small sample of subjects might be more appropriate than a large number as with the deductive approach. Researchers in this tradition are more likely to work with qualitative data and to use a variety of methods to collect these data in order to establish different views of phenomena” (Saunders, Lewis and Thornhill, 2009, p. 126).

Finally, the inductive approach gives the opportunity for the researcher to have a more flexible approach to build theories when he types questions such as how and why. According to Sauders et al (2007 p.120), the inductive approach is to gain an understanding of the meanings humans attach to events, a more flexible structure to permit changes of research emphasis as the research progresses.
3. Research strategy: The grounded theory

The next important step after the research approach is the research strategy. Different strategies exist that researcher select for their research. According to Sauders et al (2007) no research strategy is better than the other and for our research the researcher will use the grounded theory. It means that the theory will be developed with the data that has been generated, with observations. As a consequence theories should result from the primary data, the interviews, to explain the behaviour and the way the financial managers manage the working capital and the liquidity risk.

“Theory is developed from data generated by a series of observation. These data lead to the generation of predictions which are then tested in further observations that may confirm, or otherwise, the predictions.” (Saunders, Lewis and Thornhill, 2009, p. 149).

It is generally used for the qualitative research as it will explain the behaviour of the different agent.

“A grounded theory strategy is, according to Goulding (2002), particularly helpful for research to predict and explain behaviour, the emphasis being upon developing and building theory.” (Saunders, Lewis and Thornhill, 2009, p. 149).

By using this strategy the researcher will be able to discover important data from the different interview concerning how we can manage our working capital and the liquidity risk.

4. Research Choice: The mono-method

After the research strategy, the next important step is the research choice which is split in three, the mono-method, the mixed-method and the multi-method. For this research I will operate a mono-method selection which has been considered appropriate as the researcher seeks qualitative information from the respondents by using a single data collection technique and corresponding analysis procedures (Saunders, Lewis and Thornhill, 2009, p. 151).

In order to give answers to the research questions, an accountant chief plus an administrative and Financial Director, and two administrative and Financial Director concerning three different SME, one interview with the president of an investment funds and one interview with the responsible of a financial department of an industrial international company will be interviewed.
These in-depth interviews will be conducted through phone calls with e-mail exchanges to receive and find the qualitative data as their opinion and experience will be important.

“In-depth interviewing is a qualitative research technique that involves conducting intensive individual interviews with a small number of respondents to explore their perspectives on a particular idea, program, or situation. The primary advantage of in-depth interviews is that they provide much more detailed information than what is available through other data collection methods.” (Boyce and Neale 2006, p. 2).

The format of the interview will be semi-structured allowing some place for follow up questions where suitable with a set of questions are looking for depth of information from the participant. There will be an interview guide with questions that have been prepared to start the discussion and to have the data needed. Nevertheless, to not limit the answer of the participant and so allow new ideas to be found, the interview will be open. Furthermore the different interview will be recorded to save the data and so analyze more deeply the ideas and arguments of the participant and not forget anything.

Last but not least, the interview is the appropriate tool as it is required to have a deep technical understanding on the working capital management and the liquidity risk.

5. Time Horizon: The cross-sectional

The next important step after the research choice is the time horizon which is split in two categories, the longitudinal and the cross-sectional.

The longitudinal involves a study that will take a long period of time and is often used to measure the evolution during this period. It isn’t appropriate for projects with a short time limit whereas cross-sectional studies are referred as a snapshot of a particular event at a specific time (Saunders et al, 2007)

The cross-sectional engages the collection of data from more than one case during a specific time in order to collect the quantitative or a quantifiable data when more than one variable is considered (Bryman and Bell, 2003).

For this research, the cross-sectional method will be applied given that there is a limited amount of time to finish the thesis. As a consequence our subject will be evaluated for a certain period of time. The cross-sectional study is, according to Saunders, Lewis and
Thornhill (2009, p.155), “the study of a particular phenomenon (or phenomena) at a particular time”.

6. The qualitative approach

The chosen method for this research is the qualitative research given that this kind of research will help to describe and interpret the argument that the different participants give. As reported by Joseph G. Ponterotto, the “Qualitative methods refer to a broad class of empirical procedures designed to describe and interpret the experiences of research participants in a context-specific setting (Denzin & Lincoln, 2000).

Qualitative findings are generally presented in everyday language and often incorporate participants’ own words to describe a psychological event, experience, or phenomenon (Taylor & Bogdan, 1998). More specific defining characteristics of qualitative methods are dependent on the particular research paradigm undergirding a chosen inquiry approaches (which are discussed throughout this article).

It is also justified by the fact that the qualitative approach is used for any data collection technique as for example interviews or data analysis procedure as for example categorising data that will generate or uses non-numerical data (Saunders, Lewis and Thornhill, 2007, p.145). Both qualitative and quantitative approaches are empirical methods in that they involve the collection, analysis, and interpretation of observations or data.” (Ponterotto, 2005 p. 128). And then after the researcher interpreted this qualitative data on the working capital management and the liquidity risk, he will develop theories in correlation to the subject.

Our primary data will be collected with the in-depth interviews explained before to answer the research question. Moreover the objective of this research is to understand the importance of the working capital management and the liquidity risk and their possibilities to manage them. The primary data is information that has been found to agree the specific necessity of the research and is directly collected.

Nevertheless the secondary data will also be important as for example the articles, technical financial books will provide a great source of information about the different factors that can influence the working capital management and the liquidity risk. The secondary data is the data that has been collected in the past by someone else for another research.
7. The non-probability sample technique

Sampling and selection are theory and methods employed to identify, select and have access to pertinent sources of data (Mason, 2002). A sample is a smaller but hopefully representative collection of units from a population used to determine truths about that population (Field, 2005).

There are two kinds of samples, the probability and the non-probability sampling technique and for this research I will follow the non-probability sample technique for different reasons. The first reason is that the selection of the different participants will not be done randomly and as a consequence it will not follow any probability theory given that the range of participants that will be taken for the interview doesn’t represent well the population. Moreover it would have been too costly and not really logical to do a probability sampling method as the field that I will analyse needs at a certain level of expertise. Finally, last but not least it is also not possible to interview every company to have their opinion on the subject, nor does the researcher have the time and the budget to make it possible.

The non-probability sampling technique provides a range of alternative techniques to choose samples based on the subjective judgement. According to Saunders et al (2007) in the exploratory stages of some research projects, a non probability sample may be the most practical.

As a consequence I will follow an purposive sampling as an expert sampling method given that it rallied persons with experience and expertise in the financial area (which is frequently known as a “panel of expert”).

For this research a selective samples are selected as three SME, an investment funds and an international company will be interviewed to provide different piece of information on the problematic of the working capital management and the liquidity risk. Their activity is mainly focused in France or/and in Germany.

To be more specific it consists of three interviews with an accountant chief plus an administrative and Financial Director, and two administrative and Financial Director concerning three different SME, one interview with the president of an investment fund and one interview with the responsible of a financial department of an industrial international company.
8. Plan

a. What practical efforts will be required to obtain / access primary data?

When the researcher is anticipating and trying to recognize the research limitations, as he is planning, he will try to minimize the effects of them.

The first limitation for the researcher will be the time which is available to do this thesis as it has to be conducted through a short period of time. As a consequence some practical effort will be needed when conducting this research. Cooperate the personal life and the professional activities could, and is generally difficult for financial managers as they usually have large workloads and a tight schedules which could result to some difficulties when organizing the interviews, especially during the months of March and April as the financial situation is done for companies that follow the civil year.

The second limitation is as the researcher is conducting a qualitative analysis it could translate itself with subjective opinions that can bias the objectivity of the data. According to Smith (2013), “Qualitative research often depends on the individual judgment of the researcher and is heavily dependent on the researcher's interpretation (for example, in the analysis of interview data or case study information).”

Another problematic that the researcher would have to face is when making the translation of the different interviews as the participants will be interviewed in French if they aren't able to speak in English and as a consequence this process will take time and it also takes the risk to mistranslate the meaning of the participants.

b. Outline possible difficulties and limitations that might be encountered in the research process?

The participants currently don't live in Ireland but in France, as a consequence the researcher will meet some difficulties to determine an interview with them. Moreover as he will do a qualitative research, this will drive most likely to some subjectivity from my part.

c. What ethical implications do you have to consider?

There are different ethical implications that the researcher has to consider when building this thesis, but before indicating what they are, he will have to firstly define what is Ethic. Ethic is define such as “the appropriateness of your behaviour in relation to the rights of those who become the subject of or are affected by your work” (Adapted from Saunders et al. 2009)
Generally when people speak about Ethics, they speak about the implicit rules that exist between what we can do, which is defined as right, and what we can’t do, which can be defined as wrong, this concept is known as the Golden Rule.

The Golden Rule (ethic of reciprocity): “One should treat others as one would like others to treat oneself”, with this concept a person will treat all people with consideration even if there are differences between them that could involve beliefs or membership groups.

This concept has been met through time and cultures:

- In ancient China with Confucius “Do not do to others what you do not want done to yourself” (Confucius – Biography, no date),
- In ancient Greece with Thales “Avoid doing what you blame others for doing” *(Thales 624 – 546 BC)*

To understand what the implications are, I will ask myself how I should treat the people on whom I conduct research.

I will answer this question by using the four categories of the ethical principles defined by Diener and Crandall which are. The researcher will also engage himself to follow the concept of the “Golden Rule” for the future categories.

\[ i. \quad \text{If there is harm to the participants:}\]

There are two ways to harm a person, physically or psychologically by doing physical harm or threatening the participant and non-participant to give access to the information that the researcher seeks or by involving his private life.

To avoid both type of harm I will conduct physically and emotionally safe research and respect the confidentiality of the record and any factor that can damage directly or indirectly the participant.
ii. *If there is a lack of informed consent:*

The informed consent is defined by the Nuremberg Code such as “the person involved should have legal capacity to give consent…and should have sufficient knowledge and comprehension of the elements of the subject matter involved, as to enable him to make an understanding…decision…. Before the acceptance of an affirmative decision by the experimental subject, there should be made known to him the nature, duration, and purpose of the experiment; the method and means by which it is to be conducted”. (Nuremberg Code, 1947)

From this definition I can understand what the lack of informed consent is, which is hiding the subject, purpose and nature of the research so that the participant will not refuse to cooperate.

As a consequence, to make sure that the participants have sufficient knowledge to accept or refuse I will supply any information that they would like to know about the researcher and the research itself but also the methods of recording the interview and how their argument will be translated and analysed objectively.

iii. *If there is an invasion of the private life:*

The private life could be defined “the sphere of a person’s life, in which he or she can freely express his or her identity, be it by entering into relationships with others or alone”. (Human right committee, 1994)

The privacy is a component of human rights which is very important for people and transgressing this privacy is unethical and immoral. The European commission defined the right to respect privacy such as “Everyone has the right to respect for his private and family life, his home and his correspondence”. (European Court of Human Rights, 1994)

To avoid an invasion of the private life of the participant, I will give them the option to refuse to answer the sensitive questions and give them the possibilities to withdraw. Moreover, before starting the researcher will ask the permission to ask certain details and data.
iv. **If deception is involved:**

The deception results from an incomplete or false information which is provided to the participants. In general it is unacceptable to deceive someone as the participant may have refused to participate if they were informed of the true objective of it.

Some studies use the deception as they seek the participant to stay natural and to give the researcher the information he wants. But it has to be done with a lot of restriction and the investigator must provide an explanation that justifies why the deception was used.

To avoid deceiving the participant I will try to preserve the research interest and at the same time be honest to the participant as for example, clearly explain that I record the interview.
IV. DATA ANALYSIS

A. How are composed the working capital management and the liquidity risk and what factors can influence them?

Before even trying to present how the companies manage their working capital, their liquidity risk and thereafter to understand and analyse the behaviour of the financial managers against thus two important points.

It is a necessity that I present first what are the different factors that are influencing the working capital and the liquidity risk.

But before that, it is important to understand what is the working capital. The working capital can be defined as the short-term capital due to the fact that it is a part of the capital which is needed to correspond to the need of the day-to-day operations of the company. It helps the company to pay its many creditors, costs, its suppliers or its stocks for example.

The first concept of the working capital is the Gross Working Capital which is a general concept that is concerns only the total of current assets invested. If this investment is positive it will increase the value of the company.

\[
\text{The Gross working capital} = \text{Current Assets}
\]

The second concept of the working capital is the Net Working Capital which is composed with two factors that are opposing, the current assets and the current liabilities. The amount of liquidity is basically found by doing the difference between them. So when the current assets are higher than the current liabilities, it will give a net working capital. Which means that the company that is in this kind of situation will be able to finance theoretically its different operations. But if the current assets are lesser than the current liabilities, then the company will find itself in a situation where it can't afford to finance its operations, it is called a negative working capital. According to **Pradoura Ciotta Geraldine** (Interview 5), the working capital is the receivables plus the stocks less the payables.

\[
\text{So the Net working Capital} = \text{Current Assets} - \text{Current Liabilities.}
\]

Now that we know how this working capital is calculated, I will present what are the different factors that are influencing the working capital requirements.
1. The nature of the business

The first factor that has an impact on the working capital requirement is the nature of the business of the company. There are differences between a public undertaking, a service and a manufacturing organizations. The first one will logically need less working capital than the two others because it offers cash sales only. The second doesn't need any amount of stock as it is a services company that has as a main asset its people which suppose less credit transactions. According to Autesault Olivia (Interview 1), the main factor that is related to her services company and which has an impact on the working capital are the salaries, so the personal costs. The third type of company will need an important amount of working capital as there are important transactions relative to the stocks in the credit sales and the advance transactions. According to Pradoura Ciotta Geraldine (Interview 5), the stocks can have an important impact on the costs of a company if the value of it is high in the objective to perform a good delivery.

2. The size of the business

The second factor that has an impact on the working capital is the size of the business of the company. The largest companies seem to have a lower working capital requirement than the small and medium companies. According to Jon Morris and Steve Payne (2011) the largest companies seem to manage their working capital far better than the SMEs. Moreover, their analysis showed that the larger companies (sales exceeding US$1 billion) have a better result for the receivables and payable. Due to the fact that their important scale gives them more gaps to negotiate better terms of payments with the suppliers and the customers. But are lacking in the inventory management given that their operations are most likely done outside the home region which has an impact on the stocks and increase longer lead time. According to Pradoura Ciotta Geraldine (Interview 5), the payables, the receivables, and the stocks are managed through operations indicators such as the Day of Sales Outstanding (DSO), the Days of Payables Outstanding (DPO) which are well managed and the Days of Inventory Outstanding (DIO) which is more lacking with a Days of inventory that can even go to 100 days for the big industrials companies which represent three months of value.

On the other hand, the SMEs don't have the same efficiency to negotiate with their customers and suppliers as 67% of them confirmed that they are at a disadvantage (Jon Morris et al, 2011). The lack of negotiation and a too big difference in power between the customer and the supplier can have a serious impact on the working capital of the little companies and make it horrible to manage (Larralde Brigitte, Interview 1).
Furthermore, the size of the business has also an impact on the structure of the company. As a little company will be less structured than a big one. It will influence the working capital because the little companies will have a much better flexibility and a better level of responsiveness unlike large companies with a more complicated organization. According to Larralde Brigitte (Interview 1), the fact that they had a less structured organization makes her little company able to be very reactive at a time of crisis and to take the important decisions fast which gave them the possibility to come back.

Nevertheless a complex structure can be countered by a clear and efficient risk management structure or/and a crisis cell that could identify what are the biggest risks for the company and will take care of the different issues and take actions and decisions according to this, fast (Pradoura Ciotta, Interview 5). Of course this kind of process costs money, but its objective is to prevent to lose much more.

3. The production policy

The third factor that influences the working capital is the storage time. There are basically two strategies about the production policy. The first is to produce the goods when they are purchased which means they are in just in time. This strategy involves that the production capacity during weak times will be at the minimum and when they receive a peak of order, the production capacity increases with it.

The second strategy is to maintain a certain level of production during the years, and to not accord its production capacity according to the customers. This strategy involves that a certain amount of working capital has to be blocked during a certain time. The company will have to increase its stocks if it wants to be able to offer its product and balance the volatility of the demand. The second choice will have as more important impact on the working capital that the first one as it give the necessity for the company to keep the value of the stock high which costs money (Pradoura Ciotta, Interview 5).

This policy of course concerns more the industrial companies than the services companies as they have to manage their stock and the second only have to manage its personnel. Nevertheless, the personnel management is as important as the stock for the industrials companies and has to be directed well.
4. The rate of stock turnover

The rate of stock turnover for the industrials companies is one of the factor that also impacts the working capital. It is an important indicator that measure the turnover of the stock. This ratio is calculated as following:

\[
\text{Stock turnover} = \frac{\text{Annual cost of goods sold}}{\text{Inventory}}
\]

If the turnover is low, then it could mean that the purchasing system is buying too many goods in comparison with the real need. It can also means that the stocks are in an important level to answer orders and to be sure to deliver them. The danger is that if the company isn’t able to sell its stocks, then it will mean that the products will become obsolete with only a little residual value remaining. It will thus have a negative impact on the working capital as the cost would increase from detaining the stock. According to Pradoura Ciotta Geraldine (Interview 5), the big risk is that you continue to produce, you hold your stocks and the companies will not sale anymore and the stocks become obsolete.

On the other hand, if the value of the turnover is high, it will theoretically mean than the purchasing system is tight. The cost of maintaining a low level of stocks would be low which is relatively positive for the liquidity of a company. Nevertheless, it can be due to the lack of liquidity of the company to not be able to keep a normal level of stock which can decrease the opportunities of prospecting new customers.
5. The working capital cycle

Another important factor that influences the working capital is the working capital cycle which represents the rapidity to complete one cycle. To be more specific it is the time needed by an entity between the purchase of a raw material for an industrial company, or the cost of personnel for a service company and the income from the sales of the products or the services. If the working capital cycle is long then the company will have to need an important amount of working capital.

According to Autesault Olivia (Interview 1), as our days of receivables, our working capital cycle is extremely long, we are acting to have sufficient cash and manage it daily by proposing services that will complete the lack of cash and this huge gap to pay the present costs such as the personal costs.

And on the contrary, the shorter the working capital cycle is, the lesser the working capital need will be for the company. We don't have liquidities issues given that our working capital cycle is almost inexistent as we perceive our receivables before we have to pay our personnel costs (Fritsch Yves, Interview 4).

Being able to receive the income of your efforts fast is important, but to be sure to receive this income is even more important and is a crucial factor for the companies to survive and to prosper. Even if it means to make some sacrifices like increasing the receivables days to make sure that the customers will be able to pay on time which will help to keep the treasury under control and making a recovery system more efficient (Wespiser Pascal, Interview 3).
Here below is presented an example of a working capital cycle for an industrial company.

**Figure 2 : The Working Capital Cycle of an industrial company**

![The working capital cycle diagram](image)

*Source: Financial management for decision makers p 394.*

It presents the different steps concerning the flow of the money which has to pass by the suppliers, to the goods, the customers and then the company itself. The inventories are purchased on credit which gives the trade payables. If the inventories are paid on credit, then it means that the company will not have to use its cash immediately, so there will be no cash outflow which will give to the entity a safety margin.

Then it is transformed through the production of the company to give the finished goods. The sales of the products can be done in two ways:

- The sales of the products hasn't been paid yet but by credit which will create the trade receivables.

If the inventories were sold on credit, then it means for the company that it will not have any cash inflow from its investment and will have to wait. Depending of the duration of the period needed for the customers to fulfil its payment, it can threaten the efficiency of the company to pay its trade payables.
The sales of the products have been paid directly which will offer a direct cash income in the bank account of the company.

So at the end of the process, the trade payables will need to be paid and the trade receivables will be received by the company.

If the inventories are paid on credit, then it means that the company will not have to use its cash immediately, so there will be no cash outflow which will give to the entity a safety margin.

Concerning the services company, here is a working capital cycle example of one below.

**Figure 3 : The Working Capital Cycle of a services company**

This diagram is also representing the different steps of the flow of money. Nevertheless, the main difference, which is due to the kind of activity the company is doing are the stocks which are missing. The second big difference is the composition of the trade payables which doesn't really involve the suppliers but more the employees of the company. For this situation, the companies already knows that they have to pay this cost every month. If the company isn't able to do so, then the activity and the survival of the company itself would be in a critical situation.
As the management of the trade payables for the services companies cannot be negotiated easily, they have to manage well their trade receivable in the objective to have enough money to pay the salaries.

If the company is able to have a short trade receivables, then it will be able to have enough cash inflow to meet the deadline of the personnel cost.

But if the company has a long trade receivables, then it will not receive any cash inflow before having to pay the personnel costs. And the need to have enough working capital, cash will be a necessity to complete the gap. The difficulty for a services company that has this kind of gap will be to be able to maintain enough liquidity until the payment arrives.

To be able to measure in more in details the efficiency of the working capital management, it is possible to calculates the Operating Cash Cycle (or the Cash Conversion Cycle). This method calculate the period of time between the cash outflow needed to purchase the stocks or the employees and the reception of the cash from the services or goods that have been sold (Pradoura Ciotta, Interview 5). The ratio is calculated as below:

\[
\text{Operating Cash Cycle} = \text{Receivables Days} + \text{Inventory Days} - \text{Payable Days}
\]

Here below is a representation of the operating cash cycle.

![Figure 4: The Operating Cash Cycle](source: Financial management for decision makers)
6. The credit policy

The credit policy is one of the factors that also influence the working capital, it suggests how the companies manage with their creditors and debtors. Companies which have an important amount of debts finds themselves in a situation where the financials costs become high enough high to damage the working capital, and so the liquidity situation of the company. As a consequence, a company that has this kind of debt needs more working capital to counter this factor.

According to Larralde Brigitte and Wespiser Pascal (Interview 1 & 3) the use of the factoring\(^1\) process can help a company to obtain cash for the period of time when companies need liquidities. If they have some delays from their customers, they will thus still be able to finance their different expenses. Nevertheless this process involves an important financial cost that has a major impact on the working capital.

In the other hand companies that find themselves in a situation where they don't have an important amount of debt will on the contrary need less working capital to pay the cost of debt. Moreover, the fact that they are in a safe situation like this increases actually their opportunity to borrow funds with a lesser price. As according to Fritsch Yves (Interview 4), the fact that a company is in a good liquidity situation motivate the banks to get involved in projects and to review their prices down as they are competing against each other to have the benefits of it.

There are different ratios that are able to gauge the level of debt of a company.

The first one is the gearing ratio (Fritsch Yves, Interview 4), which compares the level of equity and assets according to the level of debt the company has. If the proportion of the debt is high, then the ratio will also be high but on the other hand, if the proportion of debt is low then, the ratio will also be low. If the ratio is high, it indicates that the company has an important leverage system to maximise the return on the equity which has been invested by the shareholders.

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1) Factoring process: The company receive in advance its receivable from a factor less the commission which give the possibility to insure the income.
Nevertheless, if the return is important, the risks taken are also important given that if a company is using too much debt to finance their day-to-day operations, then their financials costs, the interests will be also high. If the management isn't well done, then there is high probability that the company will not be able to meet its debt repayment schedules which will follow by the bankruptcy of the company.

**Gearing ratio** = Total of debt of the company (Including the overdraft)/ Total Assets

The second ratio that can measure in an efficient way the liquidity situation of the company is the current ratio. Its objective is to analyse if the company is financing its short-term assets with short-terms liabilities and not with its long-term debt. It also has as objective to verify if the company is able to repay its short-term debts by using its current assets and inventory. If this ratio is high, then it indicates that the company is able to pay its obligations with its cash, receivables and inventory. But if the ratio is low, it will inform the company that will not be able to pay its short-term liabilities with only its liquidity assets (short-term) assets. Moreover it also gives information about the efficiency of the operating cash cycle and the competencies of the company to turn its goods into liquidity.

**Current ratio** = Current assets + Inventory - Current Liabilities

The third ratio which can gauge the liquidity situation of a company is the quick ratio. As the current ratio, it is also an indicator of the short-term liquidity of a company. As a consequence it also analyses if the company is financing its short-term assets with short-terms liabilities and if it is able to pay back. Also, as the current ratio, the higher the quick ratio is, the better the better the liquidity situation of the company will be and vice versa. Nevertheless, the inventory is withdrawn of the calculation. And this last point is especially important as the companies have to know that even if they want to sell their inventories because of the lack of liquidity, they still need a customer to buy it (Chinmoy Gosh 2009). As a consequence, it informs the company of its ability to pay back without the inventory, but nevertheless it also give other information which is the Euro number of the short-term assets for one Euro of liabilities. For example, if the quick ratio is 1.3, then it means that the company has 1.3EUR for 1 EUR of short-term liabilities.
7. The business cycle

Another factor which has an impact on the working capital is the business cycle. The business volatility can lead to a seasonal or cyclical change that will affect the sales of the companies, but also its productions, its needs. Depending on the kind of business, the working capital requirement can fluctuate throughout the year. A business activity can go in an upward phase or a down phase.

During an upward phase, which means an economic boom is occurring there is an increase of the need of working capital for different reasons such as to balance the gap between the rise of the sales and the receipt of the cash. Or also in order to fund the additional investments such as the materials or an rise of the personnel to correctly answer the increase of the level of activity and demand. As according to Fritsch Yves (Interview 4), the segment of the market we are working in wasn't actually damaged by the financial crisis as it is a growing market which was supported by the state. As a consequence the need of cash wasn't for an emergency situation to counter the crisis but to finance the external growth of the company to continue to be able to answer the market demand.

On the other hand, when the economy is in a down phase. It supposes for the companies that there will be a decrease in the sales which will also lead as a consequence to a diminution of the resources needed to meet the lower level of sales. It will lead to a decrease of the production, stocks or even employees. Moreover this situation will also increase the difficulties of the companies to face the collection of the debtors.

According to Larralde Brigitte (Interview 1), the internet crisis had an important impact on their activity which decreased considerably. As the activity decreased extremely, they also had to reduce dramatically the number of employees which had an important impact on the working capital compared to their income. Thanks to this decision there were able to survive and started slowly to hire one more time according to the activity of their market.

Another example of the impact of a decline of an economic situation is according to Pradoura Ciotta Geraldine (Interview 5), as the company was able to predict the worst case scenario for the financial crises of 2008, which was an important diminution of the volume of sales. The strategy was to decrease considerably the production and the level of stock in the purpose to not become over-productive. Which would have had a catastrophic impact on the working capital and so, the results.
To point out the impact of a crisis situation, here are presented below the unemployment numbers of France from 2003 to 2013.

**Figure 5 : ILO - Unemployment rate in France (2003 to 2013)**

![Unemployment Rate Graph](image)

*Source: INSEE, Informations rapides, March 6 2014.*

What we can see when we analyse this graph is that the unemployment rate increased after the crisis of 2003 and 2008. In 2006, the first peak was touched with an unemployment rate at 9.2%. Then when the economy restarted, the curve is falling until arriving at 7.2% in 2008 before the financial crisis, when the economic situation was at its top performance. Then after, the cycle restarted with another crisis which impacted the economy and the companies that have to manage their assets according to this which is resulting in another increase of the unemployment rate. And we can see the consequences with this graph as the first peak came at 9.6% in the end of 2009, calmed a little bit, to then attain another peak in 2013 at 10.3% of unemployment.

So, there is a correlation between the economic situation and the unemployment rate, which involves as a consequence that there is also a correlation between the economic situation in one side and the working capital and the liquidity situation of a company in the other side and that the managers are managing their assets according to this factor.
8. The rate of growth of a business

What also is influencing the working capital management is the level of growth of the market the interested company is installed on. If the market doesn't have a decent growth, then the opportunities to invest are smalls and as a consequence the need of liquidity will also be small.

On the other hand, if the market has a generous increase, then the company is installed on such a market will meet an important number of opportunities to invest to meet the expansion needed from the business. So the need of liquidity will become bigger to meet the different investment in the objective keep the company competitive and profitable.

It is in the middle of this situation than the company will meet the trade off theory and the opportunity cost method. As according to Ferreira et al. (2004), the trade off theory use the concept of the opportunity cost to compare the cost of holding the liquidity to receive interest with the cost to invest in liquid assets which will give a result in return.

It would be possible for a company to answer to a normal expansion by using the retained profits to meet the working capital requirement, nevertheless if the market is growing fast the retained profits wouldn't be enough to answer the fast increase of the demand. As a consequence it suppose to use other means such as a capital increase or the use of debts which implies an augmentation of the risks taken.

According to Fritsch Yves (Interview 4), we still continue to focus on the external growth that are invested with an augmentation of the capital. But we don't have any investment funds and we do not use the convertible bonds to follow the will of our president and shareholder, as he prefer to stay independent and to keep a certain control over the company.

Depending of the politic of the company, the financials managers will so choose to follow the pecking order theory or not which is according to Myers & Majluf (1984), the order of priorities of the three sources of basic financing presented as the retained earnings, the debt and the equity in the last resort.

As according to Fritsch Yves (Interview 4), we already have a floating that is represent 30% of our capital, so it isn't in the vision of the president to increase it more.


B. Why are the working capital management and the liquidity important for companies today?

After having seen what are the different factors which can influence the liquidity of a company. We will now see why the management of the working capital and the liquidity risk is important for the companies today. As the management of the working capital became even more important and is a top priority for the companies as 83% of the companies think that “it is among the top five priorities” (Andrew Ashby, Roger Bayly, 2011, p 9) (Appendix F).

First of all, the working capital is an important factor for the companies as it is a crucial part for the long-term success of an activity. There is no company that can continue to have an activity if it isn't able to meet its day-to-day obligations. Which is represented by the operating cash cycle of a company that details the following actions such as, to buy, to manufacture, to stock, to sell and to receive the income.

According to Berge Jean-Lin (Interview 2), the liquidity risk for a company is a major risk that could put the company in difficulties and not allow it to be sustainable even if it has a good level of activity, even if it has a good level of profitability. The risk of default, the risk of liquidity at the level of the SME is the most important and the worst.

So an organization which is not able to pay on time its creditors and which is not able to pay back its debts to the suppliers for the goods or the services it purchased, isn't a healthy company which will undeniably be bankrupt.

But before this end with the bankruptcy, the company will meet other difficulties due to its bad working capital management. The fact to not be able to meet its current liabilities will have a negative impact on the reputation of the company and on the different operations that it could have with its stakeholders. Due to the fact that every stakeholder has an interest to know the liquidity situation of their partner in business.

First the suppliers, given that if the company is lacking cash then the suppliers will not trust its partner on the same level as if it had some liquidity to assure the fact that it will be paid in the future. As a consequence, the suppliers will think twice before providing their goods or services to such a company that has a lack of liquidity. And furthermore, if they do provide their services or goods, then the price the suppliers will ask will increase which will so
logically increase the cost of the product for the company. This increase of cost will thus by
deduction have a negative impact on the profitability of the company.

Secondly, the employees also have an interest to know the liquidity situation of the company
they are working for given that they want to know if the company will be able to pay them
for the fruits of their monthly work, provident funds or pension. Employees are not
volunteers and even if they are considered as an internal force of the company, they are not
working for free. Moreover, if the company has the tendency to not pay on time its
employees it can decrease the motivation of the workforce and increase the chance to lose
competent people with high added value. And finally, if the company doesn't pay them, the
employees will stop working and strike which will impact the production and the delivery to
the customers. As a consequence, they will highly doubt or not even trust the ability of the
company anymore. As according to Larralde Brigitte (Interview1), the fact they are able to
know their monthly situation gives them the possibility to react quickly, but also to show to
the different teams the fruits of their effort and motivate them to continue or if the number
aren't so good, to rebound.

Thirdly, the shareholders which are after all the first stakeholders of the company also have
an interest to know the liquidity situation of their company. Due to the trade off theory
between the liquidity and the profitability, the liquidity situation has an important impact on
the profitability which is inversely correlated. The latter which of course imports the most for
the shareholders as their dividend will depend on this factor. Nevertheless, the shareholders
aren't only interested in the profitability of their company in point to forget the importance of
the liquidity which is needed to collaborate with the bankers, creditors, suppliers and
employees. As according to Berge Jean-Lin (Interview 2), shareholders are not greedy of
profitability as they take a risk which is the same as the entrepreneur. When they bring 1, 2,
3, 4 Million they believe in the company and they invest. This fact the entrepreneur
understands it well.

Fourthly, the creditors and the customers of the company which can if they know the
situation of the liquidity of their supplier take advantage of it for their own purpose. If the
liquidity of the company is high, then the customers don't really have any point to pressure
on. Nevertheless, if the liquidity of the company is low and unstable and that the customers
have this knowledge then they will be able to pressure the company. By ordering the
company to reduce its goods or service prices if it wants to be paid at the same period of time. As a consequence, this reduction of price will have a negative impact on the profitability.

Fifthly, the banks which are also one of the most important stakeholder of a company. They also have an interest toward the liquidity situation of the company they will or already loan to. Depending of the liquidity situation of the company the banks will give their supports or not. As according to Berge jean-Lin (Interview 2), the banks always look at the balance sheet of a company by looking at its level of debt relative to its equity. And bankers wish that there is a balance between the equity of a company and the debt that carries the bankers, and so the risks that they take.

If the liquidity situation of the company is correct then, the banks will not hesitate to loan to the entity as for them the company is well managed and the risk is low. This external source of investment that will be agreed will then help the company to invest in projects and in opportunities which will increase the possibility of the company to increase its revenues in the future. Moreover it is also positive for the shareholders as there will be a bigger leverage effect with the use of the debt. As according to Berge Jean-Lin (Interview 2), the working capital is a true economical reality as it gives you the possibility to invest with an internal source but also its offers you the confidence to go to the bank and ask for a loan and prove that you will be able to repay, so no it is not a mirage. it is still an important element which completes the analyse of the treasury which gives a better understanding.

But if the liquidity situation of the company isn't correct, but low and unstable, the banks will hesitate or will simply not loan to the company. And if the bank is already in partnership with the company then it can also cut the overdraft line on the bank account of the company. As a consequence, the company will meet difficulties to finance itself to be able to invest in new projects that could make it profitable.

This situation will thus have a negative impact on the future income of the company as it will only be able to operate with what it had at the present time. But it will not be able to prospect other clients for it profitability and its future. As according to Autesault Olivia (Interview 1), during the crisis of 2002, when the liquidity situation of the company was very unstable and the overdraft account greatly used, our bank decided to close the overdraft line. But thankfully, another bank was able to help and re-opened the line and the support of the factor gave us the possibility to come back. Moreover, the banks prefer to lend to companies that
already possess liquidity, if they don't have then they will not take the risks (Larralde Brigitte, Interview 1).

To add another argument to defend the importance of the working capital management and the necessity for the company to have enough liquidity. Here are below some graphs which represent the number of business failure through the beginning of 2000 until 2013.

**Figure 6 : Evolution of business failure 2000 to 2013 in France**

![Figure 6: Evolution of business failure 2000 to 2013 in France](image)

*Source: Banque de France, Eurosystem, 2014*

According to Berge Jean-Lin (Interview 2), during the crisis, the companies faced mostly a very rapid decline of their activities given that most of them lost around 30 to 40 percent of their activity.

Due to this important fall of the activity, the profitability of the companies also decreased rapidly. Nevertheless, the cost of the companies which were the personnel, the production and stocks were still at the same level as when their activity were at their top performance. During some time it created a gap for most of the companies. Companies that were able to have a good liquidity management before the financial crisis of 2008 detained enough reserve
to survive until their management evolved according to the bad economical situation. And so they were able to survive and still remain above the water until the activity of the market restarted. But the companies that already had difficulties on their liquidity management before the financial crisis of 2008 weren't able to pass through this major event.

**Figure 7 : Payment incidents on commercial paper for failure to pay and failure in France (Year over Year in % of cumulative twelve month - December 2001 to May 2011)**

Source: Denis Fougère et al, 2013

Companies that were in difficulties before the crisis mostly did not withstand the crisis, the fundamentals not being good, leaders being very average or bad were obviously the ones we couldn't afford to support (**Berge Jean-Lin**, Interview 2).

It was already presented that the decrease of the activity for the companies decreases their profitability. As a consequence and as it is presented on the graph above, this important decrease also had an impact on the ability of the companies to meet their liabilities to their different suppliers. It is due to the fact that companies paid their raw materials and personnel costs as they were thinking that they will be able to still sell at the same level and so have enough cash back to pay back. But as the products and services weren't sold anymore, the liabilities also weren't paid back which decreased the reserves of the company, dug the overdraft until they couldn't afford to do so and went bankrupt.
As according to **Wespiser Pascal** (Interview 3), the major risk for a company during the crisis and still after this was to offer its services or goods to companies that would not be able to pay them which will have an impact first on the receivables and if not corrected the liquidity of the company and later the sustainability of the company itself.

Denis Fougère et al (2013) presented the relationship between the ability of the company to pay its liabilities and its probability to survive. As you will see below, there is a strong correlation between the payment incidents and the failure rate of the companies. It doesn't seem to be linked to a specific industry given that all the segments are concerned.

**Figure 8 : The effect of payment incidents on the failure rate by sector**

Reading: the abscissa of each graph represents the cumulative number of payment incidents, the ordinate is the factor by which the cumulative number multiplies the failure rate.

*Source: Denis Fougère et al, 2013*
C. How do financial departments of small, medium and large companies to manage their working capital and liquidity risk in reality?

After having seen what are the factors that impact the working capital management and the liquidity of the company, and explained the importance them. This part will now present and analyse how the companies are managing thus two major elements.

1. How SMEs manage their working capital and liquidity risk.

As it was already said, three French SMEs were interviewed for this thesis. Their sizes start at 70 people to 4000 people and they have as a common fact that they are services companies which means that the management of their personnel cost is very important for them. Moreover their age and profitability aren't at the same level.

When how much the importance of the working capital management and the liquidity risk were asked during the interviews, the three SMEs gave me nearly the same answer. Which was that they are very important to manage and take care of, but how do they manage them?

According to Autesault Olivia (Interview 1), the balance sheet of the company is done every month to define the cash budget which will accord the SME to be reactive and know how to manage the different factors. At their different levels, the other managers also came with the same answers as they seem to check the situation of their working capital and their liquidity situation by checking simply their accountancy and their bank account to see if they are in the green or in the red. As according to Fritsch Yves (Interview 4), we simply check the situation of the bank account and see if the situation is good.

When asked if they were using some specific liquidity ratio to verify their liquidity situation such as the current ratio or the quick ratio, all of the SMEs answered negatively. As according to Fritsch Yves (Interview 4), we don't have any specific tool that inform us of a limit that has been passed given that the situation of the company is analysed through the accountancy with dashboards half yearly and from the control of our bank account.

With the different interviews we saw how they were managing their present situation, but how do they plan the future concerning the working capital and the liquidity of their companies? Financials managers of SMEs are doing a financial planning for the coming 3 years, then a budget planning for the coming year and a treasury plan when they are able to
do so. Furthermore, they are planning according their knowledge of what they believe will come from the business in the coming months (Wespiser Pascal, Interview 3).

Nevertheless, all the financials managers of SMEs unfortunately don't have a view of the future which is so clear given that some have only a very short view of what will come next due to specific interactions with their customers and stakeholders. As according to Autesault Olivia (Interview 1), due to the specific customers and the very procedural market we are having for the moment, our vision on the future is very limited. As a consequence we are waiting the end of this case before we will be able to plan appropriately.

Finally, they don't use specific ratio to evaluate their liquidity and their working capital performances.

2. How large companies are managing their working capital and liquidity risk.

For this dissertation, a big company has been interviewed in the objective to compare with the SMEs their way on managing the working capital and the liquidity and also to provide more information on the subject.

When how much the importance of the working capital management and the liquidity risk were asked during the interview with the financial manager of the big company the answer was the same as the financials managers of the SME. The working capital and the liquidity are factors which are very important for the companies. But is there a difference in the way bigger companies are managing their working capital and liquidity in comparison with the SMEs?

First of all, in the difference with the little SMEs which were interviewed, this big company is an industrial company. This fact means that the management turns around the cost of personnel in a lesser degree given that it is also involves the production and the stocks.

The International company doesn't only manage their working capital simply by checking the accountancy and the bank account. Theories which explain how to manage it are also followed such as the operating cash cycle with the inventory, the receivables and the payables days which are especially followed and are helping to manage against the volatility of the market. Moreover the working capital cycle seems also to be well defined and followed by
the financial department. As according to Pradoura Ciotta Geraldine (Interview 5), the inventory days, the payables days and the receivables days are helping the company to have a clear definition of what they are representing in term of days of turnover through the year.

Furthermore, as the financials managers of the SMEs, the financial department also plan their budgets and business in an annual logic. Nevertheless this plan can be adapted depending on the importance of the projects and their duration. A budget plan is done annually but can be adapted to a structural project such as the rebuilt of a factory which is so planed on several years (Pradoura Ciotta Geraldine, Interview 5).

Moreover, to evaluate the profitability of their investments and projects like for example to buy new machines or to build a new factory they also use financial calculation such as the payback method (Appendix G) and the net present value (Appendix H). As according to Pradoura Ciotta Geraldine (Interview 5), the company is very cautious when investing in machines to upgrade the production as projects are always evaluated with the payback method. Depending on this, a green light is given to projects which has a payback below two years or more if the investment is very important. From an investment size, the investment is done only with the calculation and the time track to earn back the money has to be short.

3. Comparison between the management of SMEs and larger companies.

The first analyze it is possible to do after having seen how they manage their working capital and liquidity is the following. It seems that even if they are managing a common factor, their way to do it is very different.

In the large company, financial managers doesn't seems to use instinct or feelings to guide their managements and investments. Their actions are guided through logical facts and calculation with the help of the operating cash cycle method, the payback method and the net present value. As according to Pradoura Ciotta Geraldine (Interview 5), every projects that are done are evaluated with the net present value against the value of the investment. As a consequence even if they don't have an aggressive comportment towards the profitability and the way they manage their risks, every possible new sources of revenue that can increase the profitability is taken if it reacted correctly with the different method of calculation and the politic of the company.
On the other hand, during the different interviews with the financial managers of the SME, what came up mainly from it was how they were managing their factors subjectively. As it seems they are focusing their management by using their instincts and feelings towards what the financial managers personally thinks about their environment in the present time and for the future. As according to Wespiser Pascal (Interview 3), the business plan is done according to the knowledge of what I believe will come from the business. I try to have my budget as accurate as possible but it is only a budget. If I have the feeling that we will not reach it. My budget is not changing but my forecast will change and I will adapt my treasury plan according to this.

Moreover they also use their experience towards pasted crises to manage their situations. As according to Larralde Brigitte (Interview 1), what happened during the 2000's (Internet crises) allows us to manage today things differently. As we now know perfectly what are our strong points and what are our weaknesses.

As a consequence, their attitude towards the management of the working capital and the liquidity is very conservative. They don't take risks with their liquidity for possible investments or projects easily. On the contrary they use their liquidity to mainly provide reserves in case a negative event would happened to them and so, to be able to counter it. The results from the previous years had created some reserve for the company which gave us the possibility to manage the gap between our receivables and payables (Autesault Olivia, Interview 1).

The positive point from this is that they will be sure to stay safe in the present time by putting the fruits of their works in the reserves. But the question is to know how a company can continue to be competitive if it doesn't walk forward and take a minimum level of risks to open other sources of revenue. The fact to put the liquidity in the reserves instead of new projects should represent an important cost of opportunity. If a company isn't able to be competitive, then would it be able to survive?

Another factor that can show how the SMEs are against the risks is the use of heavy services to insure their income from the customers such as the factoring process. This kind of services were used during a crises period to insure their incomes as an emergency management. Nevertheless the SMEs still continue to use this process even after the crises to insure their revenue. The positive impact which is following this is that they are confident to be paid for their services and in an unstable economic situation, it has no price. But it doesn't have only a
positive impact, the negative impact that also came up with the use of this kind of services is the augmentation of the financial costs that directly have an impact on the profitability of the SMEs. It is understandable to use this during a difficult time, but to still use this system after remain questionable.

This can result from the lack of the managers confidence toward the situation of their market and the economy. As if the managers still think that they are in a crises situation, they would as consequence follow an emergency management. As according to Berge Jean-Lin (Interview 2), bosses are expecting less, they expect their companies to perpetuate and that what they have acquired persist as long as possible. So They do not go forward, they do not invest much, they do not make external growth, they are quite timorous.

It is understandable that the behaviours of the financial managers of the SMEs is conservatives as this fact certainly come from different reasons.

The first reason of the conservative attitude towards the risk is the experience of the financial managers itself. As they are in their prime age between 45 and 60 years old, the financials managers are part of a generation that met a lot of crises situation that had a negative impact on their companies or during their career. From inside or outside of the company. And as a consequence, their attitude towards taking a risk is extremely safe.

The second reason is that, due to the fact that they are SMEs, the financial department of the interviewed participant are composed of a small amount of people which turn around two or four people at the maximum. This fact increase the part of subjectivity of the members as their importance is much higher than a person in a financial department of twenty or more people which composed the largest companies. As according to Larralde Brigitte (Interview 1), we are two to manage the treasury and the accountancy. And it is my accounting Officer that prevent me if there is trouble. We control the commands suppliers, inputs and outputs pass by us.

Or as according to Wespiser Pascal (Interview 3), we are only two and a half focused on the accountancy and I direct it. Moreover we have one employee for two companies of the four and they are control by myself.

As a consequence the personalities of the financial managers are also more revealed in the way in which the company manage the working capital and the liquidity risk given that a few members have the control over the situation.
The third reason is the fact for a SME to be a minor agent in the economic system. As a consequence they don't have a lot of power to negotiate with stakeholders as for example with a bank. An SME as a single agent doesn't really have any influence on a big picture. So certainly, banks for example doesn't treat the SMEs the same way they would treat a larger company as their impact on the economy is different, the level of money invested and the profitability are different.

As according to Larralde Brigitte (Interview 1), when we had difficulties the bank we were in partnership with simply gave up on us. As a consequence this lack of confidence and trust between the SMEs and their main partner which are the banks, influenced the actions of the managers towards the risks. Which could be the liquidity risks by the fact to have an high level of reserve to counter a negative event, and the profitability by not investing in projects to grow and have other sources of finance as they are not sure of the support of the banks anymore.
V. CONCLUSIONS

In this thesis, we saw how complex it was to manage the working capital and the liquidity risk of a company as there are a lot of different factors that have an impact on them. Due to its complexity it is so indispensable that the companies are able to manage their key factors according to their micro-environment situation. If their profitability decreased dramatically due to the loss of ability of their customers to pay or due to the increase of the price asked by the suppliers for example, then the companies have to react and adapt quickly to their new situation so that their competitiveness doesn't also fall with it. As a consequence they have to take key decisions that will adapt their working capital and liquidity management to the new situation they are confronted with, such as to decrease the number of employees, the level of production and/or stocks. Some companies reacted quickly and others were slower, but still they managed according to their environment, given that if decisions aren't taken to correct the management and to adapt then, it is the existence of the company itself which is being questioned.

But all the external events that are in interaction with a company cannot be predicted as it was the case for the Internet crisis and the financial crisis of 2008. As a consequence, it is the situation of the working capital and the liquidity management at thus specifics times which will dictate the level of damage received from it. As according to Berge Jean-Lin (Interview 2), it is like if you are a little bit sick and you have the crisis, then you become totally sick and it is over for you. This is what happened to many but even the beautiful suffered. Nevertheless they survived because they have competent leaders, they had financial reserves, they had the trust of the third party, all of this is important.

To not be able to manage well the working capital and the liquidity during a period of economic growth doesn't impact the company profitability as the income doesn't stop to increase to hide the problems of management. Nevertheless when this economic growth stops due to an explosion of a bubble for example, then there is not enough incomes to hide the lack of management anymore and only the companies that already managed well their factors during the period of prosperity will be able to guard themselves against the impact of the crisis and after, during the decline period. Because, how a company which is not able to manage well its factors during a prosperity period would be able to manage them in times of crisis?
The fact that the SMEs were "surprised" to face crisis situations which are not from their own management and performance but due to external factors that they absolutely can't control had a very important impact on the behaviour of the financial managers towards the way they manage the working capital and liquidity. The situations they were confronted to due to external factors made them very conservatives towards their actions, and perplexed towards their future.

Due to this experience, they do not blindly follow theories anymore and don't take opportunities as fast as before. Even if some projects seem profitable, the fear of taking the "bet" still remains. As a consequence SMEs don't take into account the opportunity cost factor which is to take the decision that has the better return for the company and so prefer to lose the potential gain. It would suppose to follow the trade off theory which manages the concept of the opportunity cost to compare the cost of holding the liquidity to receive interest with the cost to invest in liquid assets (Ferreira et al. 2004).

On the contrary, due to the experiences financial managers already received, their fear and conservative attitude are guiding their vision to an uncertain future and instead of taking such decisions which would be to invest, the choice is made on the safer side which is to keep the liquidity in intern in the reserves to wait for the next "surprise".

So in place of diversifying their activities by using new investments which would also offer to diversify the risk taken and decrease the cash holding needed, they make the choice to stay in a mono-activity which includes a mono-risk by keeping high reserves (Duchin, 2010). Moreover this last situation will increase the company's financing constraints, and in a long-term point of view it will also restrain strategic decisions (Schroth & Szalay, 2010).

Nevertheless this choice can be explained by the lack of financial tools used by the SMEs to clearly analyse their room for manoeuvre in contrary with the large companies that use different calculation to know their opportunities from a less subjective point of view.

It was explained during this thesis why the working capital and the liquidity are important for companies to manage properly and with an important carefulness. Nevertheless the liquidity risk can be defined as an asymmetric risk for the company given that if the company isn't able to manage properly its factors then it will decrease its competitiveness and its ability to survive. But on the other hand it isn't the management of the working capital and the liquidity risk that can make a company profitable, but its ability to find and keep new customers and
more income which is involving an opening on the outside on the comportment of the managers, and so more risks.

As a consequence, SMEs are following the Precautionary motive which involves that a safe amount of liquidity is secured if there is an unexpected problem. Moreover the amount of liquidity that has to be retained is in function of the capacity of the company to predict the future cash flows and their capacity to borrow in a short-term period and as the capacity to borrow is low, the retained liquidity is high (Opler, Pinkowitz, Stulz, and Williamson, 1999). According to Keynes (1936) the Precautionary motive is the need to hold money in case of an unexpected cash outflow situation.

Still some SMEs are able to be well profitable and didn't receive any impact from the crisis, but this fact is more due to their specific market than for the way they manage their liquidity. As according to Fritsch Yves (Interview 4), the fact that we are on a good market that is growing fast, gave us all the element to be efficient.

But their case are the minority, as according to Berge Jean-Lin (Interview 2), the majority of the companies and especially SMEs were already weak at the launch of the crisis.

As the part of SMEs in France represents the majority of the companies in terms of number which represents 99.9% of the companies that to say 3.2 million, 52% of employment, 38% of the turnover, 49% of the added value, 43% of the investment and 18% of turnover for export in 2010 (Appendix I to N), it would be interesting to first measure and analyse the behaviour of the financial managers towards the working capital management and the liquidity risk in a more quantifiable way on a national level and on an European level. In the objective to certify if SMEs in general are following in majority the precautionary motive theory and also to gauge the general appreciation financial managers have for the future of their companies.

Secondly it would be also interesting to measure and analyse the loss of potential gain following the trade off theory and the opportunity cost for the companies in a national and in a European level in the objective to gauge their behaviour toward the external growth, the exportation and new investments.
VI. SELF REFLECTION

The self report learning is an important part for the researcher as he has to remember what he learned during the year and also analyse it. It gives the possibility for the researcher to think about the different skills he has improved and should continue to improve in the vision to achieve correctly other work in the future (Kolb, 1974). According to his theory, I recognise myself as a person which could be identified as the Pragmatist style. It imply that the person is keen to try out ideas and theories, he is also an experimenter and is impatient with open-ended discussion (Kolb, 1974). As a consequence this self report will highlight what were the different facts that I learned during my year in Ireland.

A. What did I learn?

The first problem that I met during this year in Ireland and especially during the course was the number of different cultures I faced. As I left my country, France, to study abroad and use a language which wasn't my mother tongue this year gave me a lot of opportunities to increase my skills and knowledge. Nevertheless it didn't only represent advantages as there were problems that I also met.

As no one had English as their main language, the exchange of information was difficult at first as no one knew the implicit rules of the other culture. But due to the fact that we had common projects and work to do together we had to cooperate relatively fast to be productive. Moreover as the cultures were different, the working methods were also different as for example the French working method was more tolerant than the German or the Dutch working method which created friction. As a consequence a lot of misunderstandings happened in class and during the work for group projects as everyone wanted to follow his own method as we were used to this. Moreover the fact that groups were created relatively quickly without having the time to know the people around me put pressure on the shoulders as you had to choose the people that will influence your grade.

To answer correctly the different problems met, a range of competencies were developed. As the people around didn't follow my way of thinking about some subjects, I had to keep an open minded spirit and take my time to explain in details my opinion. It is easy to be open-minded with people who are thinking like you, but efforts have to be made to do the first
steps on what you don't know. The unspoken subject which should logically be understood in my culture weren't by the others. So in the process of debate I clearly detailed what was my opinion as the unspoken was mainly the origin of the misunderstanding. But even when we started to work together, there wasn't any synergy between us as it depends also on the personality of the person you face. Some people can adapt themselves fast and others needs more time. Moreover the experiences of each members of the group were different which added another difficulty as for projects relative to finance, the marketing class didn't have any experience on it for example, etc.

As a consequence the solution we chose was to group the people of the same culture when working and, to weekly meet to summarize the project progress and exchange our opinions on the subject. Moreover, the missions of each member were given according to their preference and studies to increase the motivation and the quality of the work as followed by the Belbin Teams Roles. For example, a member that studied marketing would work on the marketing part of the project and a member that studied finance would work on the finance part of the project. According to doctor Meredith Belbin, the place of an entity is function of the tendency to behave, contribute and interrelate with others in a particular way. Nevertheless, even with the different difficulties met, it was a great experience to be confronted with as it taught me to be more receptive to other points of view and new ideas from people of other countries such as Libya and Moldova, or even from countries installed as far as the other side of the world such as India.

The fact to work against the clock for different projects and the thesis could be a difficult thing for some of the students. But it wasn't the case for me as I am already use to work in a limited time. This is mainly thanks to the previous years and the numerous projects that I had to perform which taught me how to organize myself to be efficient and to work on time. Of Course, I never did such a large project that this thesis but I think that given that I already had some experiences with the smaller project in the past years, it gave me a solid foundation on how I should organize myself to work on time.

But as I was used to work and organize myself I prepared my own way of developing subjects and finding information. For the elaboration of this thesis, my knowledge and my methods weren't enough and I quickly started to stagnate and loose time. There were sometimes when I wasn't able to advance on the subject due to a "lack of inspiration" or sometimes even worst when I had the feeling to regress. Nevertheless thanks to the studies I
followed and the different methods I was taught during this year I acquired the weapons to face the project. Still I wasn't as much efficient as I wanted to be as I needed time to be used to this new tools.

Because the methods I learnt were more accurate and went more in details, the information I was able to find out were also more accurate and detailed. After this, I understood that I had to take my time in the process of research and not only to follow what I was thinking and my instincts. By using a more scientific methods I was able to put aside my subjectivity and be more objective about the different missions I had to followed to have the project succeed.

I was able to polish my research methodology which was blurred to clarify my thinking. In the same time I was also able to clarify what I was looking for in term of work, information and analyse them in a better way.

Another difficulty which was met during the year and the development of the thesis was the definition of the problematic of the thesis. I am very interested in objective topics which is one of the reasons why I choose to study finance but for the purpose of the thesis, my first point of view was too general and too descriptive. But still during my studies, what came at the same level of importance with numbers and ratios was the analysis you have from them which supposes a part of subjectivity. And after speaking with the people around me, I was convinced that this is this part of subjectivity and behaviour that I also learnt during this time that I wanted to translate in the thesis.

Last but not least, I am use to speak in front of people to present my work which is mainly due to my activities as the treasurer of the sportive association of my school in France as I had to present in front of the entire school. But still I wasn't use to speak English during a long period of time in the beginning of the year even in front of fifty people. But with the discussions and debate in the different course I was able to earn confidence on my aptitude to speak English.

**B. Will it be useful for the future?**

First as I would like to work abroad of France, I will meet other nationalities to work with. As a consequence, the fact to adapt fast due to the necessity of the work will be important. When I was working during my different internships I was able to meet different people and to work with them. Nevertheless they were coming from the same culture as me. The fact that I was
able to studied in Ireland was a good opportunity to improve my communication skills in English, given that companies want people that are able to communicate and adapt.

Secondly, another fact which is very important for the companies today is the punctuality and the efficiency of the work which has to be offered. Thanks to the different projects and the limited time imposed I learned how to manage efficiency in term of time what has to be done which is a necessity in the professional world.

Thirdly, the fact that I was able to increase my method of research and work should help me to manage better the opportunities and the unexpected moment that will come in front of me, my team and company I will be in partnership with.

Fourthly, what I understood was that you can't be totally objective and subjective. You have to manage a certain trade off between the two factors. The fact to be objective is important for the company as it has to receive the correct results from you but on the other hand the fact to be subjective is also important. As for example if you are an auditor, a financial manager or even a financial analyst, it is also your interpretation of what is present in front of you which will give the added value your employee want from you and need.

Fifthly, the fact that I was able to travel during my studies and the fact that I enjoyed to meet different people of different world increased my vision of what I had in the past. A vision which were relatively little and focus on my own country. I am sure that this change will be helpful for me concerning my professional life and personal life.


Collis and Hussey (2009). Business research : a practical guide for undergraduate & postgraduate students. 3th edn


APPENDICES

A. The Major external source of finance

Source: Financial management for decision makers p 222.
B. Major internal source of finance

Source: Financial management for decision makers p 249.
C. Sources of cash inflows and outflows

Source: Financial management for decision makers p 40.
D. Working Capital Management Balance

![Diagram showing the balance between having sufficient working capital and having excessive working capital, with implications for liquidity, risk of insolvency, and costs.](image)

Source: Lecture of Margaret O'Keeffe “management of working Capital” p 6.
E. The working capital cycle

Source: Financial management for decision makers p 394.
F. Top of mind? Cash management as a strategic priority

Which of the following best describes where cash management ranks as a strategic priority for your business?

- Number one priority: 11%
- Among the firm’s top 2 to 5 strategic priorities: 38%
- A second tier strategic priority: 45%
- Of concern, but not a strategic priority: 6%

Source: KPMG, Annual working capital survey p 6.
**G. Payback period**

It is the period of time needed for an initial investment to be repaid out of the net cash inflows from the project.

Example: A company has the choice to invest in two different projects.

<table>
<thead>
<tr>
<th>Years</th>
<th>Investment A</th>
<th>Investment A</th>
<th>Investment B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cash Outflow</td>
<td>(150 000)</td>
<td>(150 000)</td>
</tr>
<tr>
<td>Years 1 Net Cash Inflow</td>
<td>90 000</td>
<td>(60 000)</td>
<td>70 000</td>
</tr>
<tr>
<td>Years 2 Net Cash Inflow</td>
<td>30 000</td>
<td>(30 000)</td>
<td>75 000</td>
</tr>
<tr>
<td>Years 3 Net Cash Inflow</td>
<td>20 000</td>
<td>(10 000)</td>
<td>45 000</td>
</tr>
</tbody>
</table>

The investment A will not be profitable.

The investment B will be profitable in two years and:

\[
\frac{40 000}{12} = 3333.33
\]

\[
\frac{5000}{3333.33} = 1.5 \text{ month}
\]
**H. Net Present Value (NPV)**

The Net Present Value is a present value of the total of the cash inflows and outflows future for an investment. If it is positive then the investment should be profitable.

Example of the net present value for the investment B:

<table>
<thead>
<tr>
<th>Years</th>
<th>Net Cash Flow</th>
<th>Discount Factor (10%)</th>
<th>Discount Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years 0</td>
<td>(150 000)</td>
<td>1</td>
<td>(150 000)</td>
</tr>
<tr>
<td>Years 1</td>
<td>70 000</td>
<td>0.909</td>
<td>63 630</td>
</tr>
<tr>
<td>Years 2</td>
<td>75 000</td>
<td>0.826</td>
<td>61 950</td>
</tr>
<tr>
<td>Years 3</td>
<td>45 000</td>
<td>0.751</td>
<td>33 795</td>
</tr>
</tbody>
</table>

Net Present Value: 9 375

In comparison with the Payback Period method, the investment B is less profitable due to the actualisation of the value of the money.
I. Distribution of firms according to their category in 2010(%) 

J. Distribution of employment depending on the business category in 2010 (%)

K. Distribution of turnover depending on the business category in 2010 (%)

L. Distribution of added value based on the business category in 2010 (%)
M. Distribution of gross investment in tangible assets excluding contributions by business class in 2010 (%)

N. Distribution of turnover for export by enterprise category in 2010 (%)

O. Translation of the interviews

1. Interview number 1

Participants:

- Brigitte LARRALDE, Administrative and Financial Director,
- Olivia AUTESAULT accounting Officer.

Company: Deal Informatique (informatics and ERP), little company of 70 people.

Brigitte Larralde: Good afternoon Nicolas.

Nicolas: Good afternoon Brigitte and Olivia.

Brigitte Larralde: So I don't know if I told you but Olivia is my accountant and she will be with us during this interview. We will try to light you as much as possible and give you a good vision. We are a little company, we are not a big SMEs as we are 70 people.

Nicolas: Very good, so I will start to give my questions. First I would like to know what is your background, studies and experience in finance of both of you?

Brigitte Larralde: I will start, for my case it is completely atypical as I didn't study at all and it was the way of life that put me here. I did general's study and then I started to work and it is the meetings with certain people that gave me the opportunity to be here. Nevertheless for Miss Olivia it is more accurate.

Olivia Autesault: Yes, so I have an accounting degree, after this I entered in an accounting firm when during 7 years I did auditorship and know I'm responsible for financial and accounting work.

Nicolas: So the problematic of my theses turn around the management of the working capital, how the company manage this important point and also how do they manage their liquidity risk. My first question on the topic is to know what level of importance the working capital and the liquidity risk have for you personally and for the company you’re working for?

Olivia Autesault: Well, in fact I will talk about the history of the company so that you will be able to understand our operation of today. 10 years ago the company met difficulties as we
found ourselves to have huge losses. As a consequence in the level of our treasury we were stranded and we called a factor and used a factoring process, it speaks to you?

Nicolas: Yes.

Olivia Autesault: We used the factor to counter our a lack of treasury to pay the salaries and expenses and to not be in insolvency. Today we still use it but not in the same way as at first we gave to him all of our bills as we needed cash immediately to have a cash advances. We used it like this during 4-5 years until we were able to rise again on the turnover. We still have this process to day for our security but not to have a cash advance anymore as they didn't gave the money for free which resulted with important financial expenses. So today I manage this way, I use the treasury when I really need too and when I have a cash surplus I withdraw it to the factor. So today I can say that we still have the factor, we still have this security that if we need cash we just need to use it.

So in level of our need I do cash budget to see where we go and compared to what is available we manage it this way. As for us it is out of the question that we are at overdraft.

Brigitte Larralde: If there is an overdraft it is on a very short term during one day for a specific operation or didn't managed well our cash flow or that we didn't plan it correctly.

Olivia Autesault: Does it answer to your question?

Nicolas: Yes, it's splendid. So well, given that you had a previous experience in this area with the financial difficulties I suppose that the impact of the financial crises of 2008 was lesser compare to other companies or did you also suffered?

Olivia Autesault: Well no we didn't felt the crises on our turnover or other factors. I would more say that it is when we started to up the slope, absorbed the losses and stated to have once again some profits.

Brigitte Larralde: Yes we were able to complete our financials hole as we suffered two waves of redundancy. Before the first crises (2002) we were 160 people and now we are only 70 people. We even decreased until we were 50 and it's only been 2 years that we are back and that we are able to hire.

Nicolas: Oh Wow...

Brigitte Larralde & Olivia Autesault : Yes, yes. (Laughing)
Nicolas: Well, yes it's impressive (Without a word). Because I was thinking that given that you are a little company it would be the financial crises of 2008 that would hit you but in fact it was the internet crises that...

Brigitte Larralde & Olivia Autesault: Yes it is during the crises of 2002 that we suffered.

Olivia Autesault: And during the years after which are; 2003, 2004 and 2005 we had to cover the deficits.

Brigitte Larralde: This is where we took the factor and it's true, the factor really saved us. If we didn't use it we would have passed away.

Olivia Autesault: With the dismiss wave we were able to reduce our personal cost dramatically. I had to and I still do a balance sheet situation every month to see where we are and where we go.

Nicolas: Ok, because my next question was about the planning of your treasury and so it is monthly.

Olivia Autesault: I do the situation monthly as if I do the balance sheet and with this define my cash budget. So that we can be reactive and to know on what factor we will play if there is a problem.

Brigitte Larralde: Today we exactly know where we are (March) with a situation of the end of February and the situation of the end of March will known in April. So it give the possibility too react quickly and also it motivate the teams.

Nicolas: Ok, but before 2002, how did you manage this?

Brigitte Larralde: It was a lot heavier and the factor give us as said Olivia a comfort position as before we had a person that did the revival daily and myself did a lot and also the investments.

Olivia Autesault: Know that today's investment, for what they bring we doesn't do it. And that is why II do withdraw the money from the factor because in co-financier it would be too important compared to the benefits of the investments. As if I want to have a good investment with good return I need to block this money during a minimum of one year...
Brigitte Larralde: ...and we can't afford to do so as we don't have the margin as the conjecture is very tense...

Olivia Autesault: ...as our client is the public market and the public market determine the payments and work with advance on a long period. For the other clients when we did our service we bill them immediately but with the public market it can be shifted around 3 or 6 months. That is why we manage our cash daily.

Nicolas: so the work that you do today, you will be able to touch the income in 6 months, that's what you mean?

Brigitte Larralde: Yes exactly, this the specification of the public market which is, I have to say horrible to manage.

Olivia Autesault: Thankfully from the previous years we have some reserve to manage the gap and that is because of this gap that we have to manage daily our plan.

Nicolas: And so during the 4 last years the clients that offer your services to met some difficulties to pay?

Olivia Autesault: No they don't have any difficulties as it is the State that engage itself to pay. For the other clients, the little yes but the big no.

Brigitte Larralde: We work with what we call the large accounts such as Bouygues, Spie Batignolles, Stade de France. With them there is no problems, we just had some adjournment of request. In the commercial department, a prospect that would have sign during the year will do it later. These last years we were more confront to this nevertheless it seems that the activity restart during 2014 which will help us to pass the step of the public market which is heavy to manage for us.

Olivia Autesault: After, what allows us to meet our needs is that we invoice a maintenance service two times during the year, the first in January and the second in July. It's like a package they pay, an insurance. So in January I have some cash that come that give me the possibility to have some flexibility until the end of August. So it is thanks to this that we are able to work, the regular income of January and July that give an important cash in on the first and third trimester.

Nicolas: And for the way you manage your accountancy?
Olivia Autesault: I pass all the operations and after I have all the book excerpts in the other side for the planning. I have what I call a period of simulation where I put every operations every months and that give me the possibility to have a picture.

Nicolas: Ok, what I would also like to know is how do you define your working capital cycle?

Olivia Autesault: Well for our debt it's every month the same thing and the most important factor is the salaries and after the fixed costs that are paid monthly such as the travelling expenses. But the bigger part is the personal cost.

Nicolas: And to have a better vision at a time 'T', do you use some specific ratios or some particular tools? Do you give yourself a certain flexibility depending on certain ratio?

Olivia Autesault: What I do is putting the cost of the year on a board and then annualized it and split it monthly.

Nicolas: Ok. I ask this question because some companies use some specific ratio to know if they are in the green.

Olivia Autesault: Not us, we are doing a balance sheet situation.

Brigitte Larralde & Olivia Autesault: (Laughing)

Brigitte Larralde: What we calculate is the cost of day every month but we use directly a picture of the accountancy.

Nicolas: I understand, another question... What is your relationship with your banker? In the past, was he able to help you during trouble times or was he closed because it is his job to do money?

Brigitte Larralde & Olivia Autesault: (Laughing)

Brigitte Larralde: I will let Olivia answer this question or I might be a little abrupt. (Laughing)

Olivia Autesault: When the company was created there was a bank which was the historical bank of the company and when we met difficulties they simply drop us and closed the overdraft line. After that we had a bank which is still our bank which is HSBC that supported us as they re-opened our line of treasury and after another bank which is the bank Courtois
and that is also still here that we use when in need of funding. And at the end the Factor and it was him that really supported us.

Nicolas: So you are mainly in relationship with your factor?

Brigitte Larralde & Olivia Autesault: Yes

Brigitte Larralde: yes as for the banks when you have money they are able to lend you but when you don't have they don't lend it to you.

Nicolas: yes, it is kind of like the rich become richer and the poor poorer.

Brigitte Larralde: Yes exactly. When we had difficulties they gave up on us. And thankfully others were able to play the game and that's how we were able to survive.

Nicolas: And so before the crises of 2003, how was your vision about this liquidity risk? How did you treat it?

Olivia Autesault: Well I arrived in 2002 so Brigitte?

Brigitte Larralde: If I remember correctly the years of 1999 and 2000 were euphoric as we built another building, we were around 160-180 people, it worked well. We were cautious about the risks but we were in a period with..

Nicolas: ...a particular passion?

Brigitte Larralde: Yes. And we didn't see this crises coming so when it hit us, it hit us hard. It's true that we were very reactive at this time as we were able to take important decision fast. We didn't wait by thinking that the situation will be resolved by itself, and it was difficult to do it.

Because you know, it is not so easy to pass from a little structure to a bigger one as we started with 3 people including myself and it was 40 years ago. So after this, we evolved slowly and in 2000 the company exploded and we were 160. We managed a little bit, not like a grocery store but...well, it was a bit like this and it evolved.

Olivia Autesault: When I arrived in 2002, the person before me was even talking about the possibility to go on the financial market but it was dropped with the crises.

Brigitte Larralde: Yes it was a time where we had eyes bigger than your stomach.
Nicolas: Yes, Yahoo had his project of merger that failed.

Brigitte Larralde: Yes it was the explosion. We hired a manager, someone who came from the bank and we should have entered on the financial market... Well you don't see but we are laughing because Olivia know this mister...

Nicolas: I understand, because what I'm interested in is... I understand how you managed your situation, you gave me a lot of information but what I'm also looking for is the analyze that you have after this event. Do you think that you should take another decision...

Olivia Autesault: I don't think it is a question of choice...after the bubble exploded it was normal to have this period of trouble. Maybe it was because of the level of personal as there were maybe too much. Which permits us to say that we know the limit of our staff level depending to the turnover today.

Brigitte Larralde: What happened during the 2000's allows us to manage today things differently. As we now know perfectly what are our strong points and what are our weaknesses. And the weakness was that we weren't able to manage the personal factor correctly. We weren't good in 2000, I will not enter in the details but we tried to empower people as when you are a family, when you are 20, it is possible. But when you are 150 people, this is not longer the same, this is not the same operation and this is where we were bad. Today we are 70, we started two years ago to hire again as we had arrived at a figure of 50 people and with Olivia we laughed because we were thinking that we will soon don't need a work council anymore ( The law say that you have to have one when you are more than 50).

Brigitte Larralde & Olivia Autesault: (ironic laugh)

Brigitte Larralde: What I analyse is that it is not in our financial management that we had problems as we were always good on this field but it was the management of the personal.

Nicolas: So that's what created the gap.

Brigitte Larralde: Yes I think so. You don't manage 170 people as 20. You see for example we don't have a system of clocking. You can manage it at 20 as there are the friendliness and a family spirit nevertheless when you are more you can't do it again. There are lazy guys, other that will "benefit of". You have a huge loss of work as they don't work 8 hours anymore but less and when they work 7 hours you should be happy. The responsible prefer to kiss
rather than saying that there is something wrong. It is what Olivia and myself work also on, and we are not the nice people.

Nicolas: It is difficult to be well perceive by the employees when you have to put limits and rules.

Brigitte Larralde: and the fact that two years ago we signed with the public market... well it is a decision from the direction.. but I think we will not do it again as it is too heavy for us.

Nicolas: And so, to talk a bit about the future, what is your opinion about it?

Olivia Autesault: To answer this question, we have to wait a bit after the public market case so that we will have a better vision as it take us a lot of time in intern and people that can't work on other project. We can't afford to hire more as it will increases the cost and damage the situation of the treasury which already tense. So we have to wait. The market that we signed is 3 Million Euros and our turnover is around 7 Million which is tense.

Brigitte Larralde: Moreover this kind of market is very procedural, as one week late in a delivery will cost 50 000 Euros of penalty if we don't pass the checkpoint.

Olivia Autesault: And if it happen, I'm not well and that is why for the moment our vision is only two weeks ahead.

Brigitte Larralde: Do we answer well?

Nicolas: Yes very well thank you. Do you follow a specific Enterprise Risk Management process in your department?

Olivia Autesault: No, as I take care of almost everything, there Brigitte as the director, me as the accountant and financial responsible and two assistants. There are me and Brigitte than can touch the treasury.

Nicolas: I'm asking because depending of the number of people and their task there is a risk of losing some important information.

Brigitte Larralde: No, as we are two to manage the treasury and the accountancy. And it is Olivia that prevent me if there is trouble. We control the commands suppliers, inputs and outputs pass by us.

Nicolas: Well thanks you very much, I think that I ask everything that I wanted.
Brigitte Larralde: it will be useful?

Nicolas: Yes very useful, but if you have something more to add I'm open.

Brigitte Larralde: Well if you have more questions, feel free to call.

Nicolas: Thank you.

2. Interview number 2

Participants:

- Jean-Lin BERGE, President.

Company: Alsace Capital (Investment funds)

Jean-Lin BERGE: Good afternoon.

Nicolas: Good afternoon, Nicolas GREWEY on the phone. Thank you again for agreeing to this interview for my thesis. Before talking about the main subject, could you please tell me more about your professional background, studies and experience in finance?

Jean-Lin BERGE: Well, I'm 56 years and I'm working since 1980 in the financial world. I worked during 20 years in a bank and more than 10 years of bank for the companies with under my responsibilities several agencies specialized in the management of the companies and the responsible of the company market in a regional bank. And since 2000, so more than 14 years I'm working on what we call the top of the balance sheet in the investment, the private equity. And as a study I have a master in management and business administration.

Nicolas: It's impressive.

Jean-Lin BERGE: Not at all, you will see when you will have my age.

Nicolas: Well I hope so. My first question, I would like to know for you, personally what is this liquidity risk for the companies? Does it have a specific importance?

Jean-Lin BERGE: Yes, the liquidity risk for a company is a major risk that could put the company in difficulties and not allow it to be sustainable even if it has a good level of activity, even if it has a good level of profitability. The risk of default, the risk of liquidity at the level of the SME is the most important and the worst.
Nicolas: Ok, I would like to know, in a more realistic point of view what kind of problems do you meet when you analyse companies, what solution do you bring when confront in this financial need?

Jean-Lin BERGE: Our work is to bring equity and this allows us many things. To carry out an investment program, a project whether it is a material investment to develop in intern for new activities for example. Or an investment-type repurchase of another company call build-up or external growth. So our work is this, to bring funds that will not be repay, not before 4, 5 years. In order to create a leverage effect on the overall financial partners, including banks. As you know banks always look at the balance sheet of a company by looking at its level of debt relative to its equity. And bankers wish that there is a balance between the equity of a company and the debt that carries the bankers and so the risks that they take. Providing capital allowed to establish greater leverage effects so that banks will be more engage to lend due our enter as the files are study very seriously, which put them at ease as the banks know that they are not the only one to take the risk. The investor, us that believe in the development of the company and its project which reassures banks.

Nicolas: Just before and during the financial crises, what was the problems you were confront with ? Projects that you believed in and found themselves in a desperate situation or maybe some new possibilities and opportunities ?

Jean-Lin BERGE: Both case exist, clearly. Well we are a little far from the liquidity but I can come back on it later. A company, before or after the crises is always concern about the problematic of the liquidity risk, whatever society, whatever its profitability. The problematic of the treasury, of liquidity is always a priority and essential. So before and after the crises, it doesn't change. It is just became worse after the crisis of course. During the crises, so from the end 2008 and 2009 companies had mostly a very rapid decline of the activity. Most of them lost around 30 and 40 percent of their activity.

As a consequence the profitability were very bad, and when we were invest in these companies in the most of them. We were confront to a choice, help to pass this bad cap and support them during the storm. It has been done on some of them when their fundamentals were efficient, the leadership were efficient, when they were able to take decisions to restore the profitability, at least a balance for the next years and they took things in hand to correct the negatives effects of the -30, -40 percent of turnover. On the other hand, the other subjects, companies that were in difficulties before the crises mostly did not support the crisis.
fundamental not being good, leaders being very average or bad, obviously the ones we could not support.

In some we have invested once again, even in companies that have made losses when they had never done and saw their market crumble. You know it is a question of trust, when you trust the leaders, when you trust their past with what they have shown and what they should be able to show once again tomorrow, we are inclined to support them. But when you have in front of you a one-legged person who wants to become sprinter, this poses a bit of a problem.

So both cases existed, clearly. We supported a lot during trouble times, we have been careful to not dilute them by using convertible bonds rather than share directly. We did absolutely everything needed to support the ones that I can call 'the good ones' in this storm. By contrast, those who were not good before the crises died. We cannot save everybody.

Nicolas: Yes it would be too beautiful.

Jean-Lin BERGE: I don't know if I answered the question.

Nicolas: Yes you did.

Jean-Lin BERGE: And systematically the difficulties that the companies had met at the time of the crises were the difficulties of cash, the liquidity problems.

Nicolas: And so how do you analyze this major event of 2008? Do you have a specific criticism about it?

Jean-Lin BERGE: The subject is very large. There was clearly a bubble, a lot of people, especially the States lived beyond their means, and when the State live beyond their means the rest of the economic sphere also live beyond their means. Yes there was a trigger effect in the United States but it was just the trigger, it is not the cause.

Nicolas: What I want to say is that some companies were able to survive and others couldn't, why? Is it because of the overconfidence, a passion too large, a poor assessment of their financial capacities or a mix?

Jean-Lin BERGE: It a mix yes, but mostly I think companies that were already weak at the launch of the crisis. There are many, and this is the majority by the way. So when the growth takes them a little, well, it's going well as they slide on the wave. When the growth decreases or there is a return as in 2008 compared to what has happened in 2006 and 2007 when the
machine was overheating. Those who were financially limit in term of treasury didn't pass the cap and if nobody helped them they died.

After, why are they there? They are often here because leaders who are in their heads are not real leaders. That is to say that these are not people who see the future or at least appreciate it, approach it in order to get the maximum benefit. Or, or to avoid making mistakes and change course. Often people think that they can sell product at 100 Euros for example and they believe that their product will never be not sell at 100 Euros. And lack of luck there an Asian or an American who comes to the market and sells the same product and sell it at 50.

Nicolas: So it is a lack of vision that will create a gap with the other competitors.

Jean-Lin BERGE: Yes, a lack of foresight, lack of questioning themselves and then for some as it may be bound, a lack of means. It is like if you are a little bit sick and you have the crisis, then you become totally sick and it is over for you. This is what happened to many but even the beautiful suffered. Nevertheless they survived because they have competent leaders, they had financial reserves, they had the trust of the third party all of this is important.

Nicolas: Ok, because they had a project also, I understand.

Jean-Lin BERGE: Because some had a project, yes. You do well to make me think back. Were they opportunities during the crisis? Yes, it is always during a crisis that there is opportunity for the strongest that were able to take over the weakest and so do external growth on companies which disturbed them a little on their market. Strengthen themselves by buying other companies that were affected but could still bring business as market share for cheap. It still exist actually, but in a lesser proportion.

After the crisis there was a little burst which is now falling and companies show fingers that was done during the 2000's years, between 2000 and 2005. With the peak in 2006, 2007, I was talking about it this morning during a general meeting of a company that shown us its past fingers. I don't think, well, we don't even hope today to do the results that this company, that is still healthy, repeat what they did in 2006 and 2007. It would be a dream today.

Nicolas: Ok, and so, given that it is a dream to have such result, the objectives of the shareholders and the leaders of the companies certainly evolved? Your objectives, what you expect from them certainly changed?
Jean-Lin BERGE: Yes, absolutely. The bosses are expecting less, they expect their companies to perpetuate and that what they have acquired persist as long as possible. So they do not go forward, they do not invest much, they do not make external growth. They are quite timorous and they say to themselves 'Let's try to save what I have today, I don't want to take any risks'. Considering this situation our claims also decline, well, we still have our dreams as they are still the same but the reality is different and we know it today. This means that when we think we will smoothly have a good operation on 5 years, when we present it we hope that it will do at least half of what we believe. We are now more careful and things come back to a more reasonable level as they were not at all. The bubble was also this, everyone was thinking that the trees will touch the sky but they don't.

Nicolas: So you have certainly a particular process to analyse the companies before findings them ? Did this process changed ?

Jean-Lin BERGE: No, no, our process didn't change as there are no reason that it changed. It simply that the companies told us that the result could be multiplied by (say a random extreme finger) 10 at the end of 5 years. We kind of finished to believed it. It kept climbing, and there was no reason why it should have not continue, it is like Icarus that wanted to go to the sun. And today when we are presented with a Business Plan we don't really believe it. We came back being more reasonable and thinking differently, but in our process no.

To come back to your topic, we are very careful about the impact of the working capital management, the impact of the treasury to do it simple. As we saw well that the consequences of it is very important and that a healthy company with results and a good one, if it failed in its treasury management could tomorrow no longer survive and it happened during the crisis.

Nicolas: By this lack of liquidity with the exchange between banks that were frozen, there was a need that couldn't be filled.

Jean-Lin BERGE: Exactly.

Nicolas: So in fact it is more the interpretation of your numbers than the choices of them that changed during these years. This is almost a change of mentality.

Jean-Lin BERGE: Yes, we are more attentive, critical, critical in the good sense of the term, records are deepens, we ask for explanations to the leaders when they give us a planning or a
business plan. We are going more in details. Well, the good professionals also did it, but I think they did it a little less as we were in an environment of euphoria.

Nicolas: Ok, Do you use some specific ratio or calculation to measure the companies?

Jean-Lin BERGE: Our point of view is not only on financial facts, what is also taking into account is the quality of the team, the market, the competitors. Well, after we didn't created the hot water, we use the classic ratio that everyone use to verify if the company is healthy or not. there isn't a ratio that will say that we do the operation or not, it is a whole. The past numbers are important but it is the future that will make us earn money.

Nicolas: And so, today I saw that you use FCPR (Now FPCI Professional fund capital investment). And you used this funds to motivate local companies to invest.

Jean-Lin BERGE: well, motivate isn't the good word. We use this fund to answer the financial needs when companies present some project to grow, intern or extern.

Nicolas: And what is the result, the feedback of it ?

Jean-Lin BERGE: it is too soon to answer as it's been only two years. The first returns will be in 4,5 years. So at the present moment it is difficult to say. We are not in front of an evolution of the turnover with two numbers, on the contrary. The investment of the public authorities are limited and they were big consumers such as the territorial community, the cities and department, etc. Today their budget is more limited which means less investment which weighs on the economy in general and the SME.

Nicolas: For a more intern point of view what utility has the working capital for you ? Isn't it just a virtual picture?

Jean-Lin BERGE: No, I wouldn't go that far because it is a true economical reality as it give you the possibility to invest with an intern source but also its offer you the confidence to go to the bank and ask for a loan and prove that you will be able to repay, so no it is not a mirage. it is still an important element which complete the analyse of the treasury which give a better understanding.

Nicolas: What is the vision of your partner when you arrive at the general assembly.

Jean-Lin BERGE: Well, to start the relationship is very important in our work. When we study a case, the relationship between us and them is the as good or even more important than
the financial situation as we will have to live together during several years and this must be
done well, if not, we will regret it in one hand and in the other hand we will do a bad
financial operation. The second thing is that we are not greedy of profitability as we take a
risk which the same as the entrepreneur. When we bring 1, 2, 3, 4 Million we believe in the
company and we invest. this fact the entrepreneur understand it well. We invest on him and
his project and if tomorrow, he is not at the rendezvous, if his project is not at the rendezvous,
it is him that have to give explanation.

To earn money we need the value to be created, and if the value is created in the company
then the deal is automatically win-win it cannot be a deal win-lose, it doesn't exist in the
business. Nevertheless it can be a deal lose-lose. As if the business fails, the leaders and us
lose everything.

It can happened that there is difficulties is the relationship. But when does it happen? it
doesn't happen because the investor simply change the objectives and their comportment. It is
announce since the beginning of the relationship and after it doesn't change so the leaders of
the company know what to do.

If there is a problem, it is simply come from the entrepreneur because is not mobilize
anymore, he doesn't want to work, he hide information or did bad operation and doesn't
inform you. To finally discovered it as the general assembly once per year. Or because he
took bad decision and don't follow the advice of the assembly. It is simply due to the fact that
he didn't respect the engagement that he took.

Nicolas: I ask this naive questi
on as I wanted to know the importance of the relationship
between businessmen in fact.

Jean-Lin BERGE: It is primordial in this area. both parties have to bring something to this
relationship, the investor doesn't only bring the money, he also has to bring competences,
advises, experiences and support in trouble times. But at first you need a trust between them
and a true desire to be associated. The ‘affectio societatis' which is important to follow as for
example, if you meet an entrepreneur that you don't believe in but has a super project, it is
better to not do the operation. As there will be a time where things will go wrong, you will
lose time for a return on investment that will be not significant.

Moreover, it is important to always show that the advice that we give are good advice and are
both advisable and payer as we are involved.
Nicolas: Because if there is a betrayal in this relationship there is no recourse for you

Jean-Lin BERGE: We have a shareholders pact where there are a certain number of clause that we can use if there is a problem but it is difficult, you lost time, money and energy. But in general it goes well.

Nicolas: And during the crises of 2008 what were the decision that you advised?

Jean-Lin BERGE: Mainly to focus on their strong point and to not lost themselves in secondary missions and to manage the treasury daily, to used opportunity and sort.

Nicolas: Maybe some layoffs and sales of assets?

Jean-Lin BERGE: Yes, when it involved operations that was without any consequence for the core activity of the company. It is better to lost a leg than the entire body but you can't use it too much as you have to keep your strong point because there will be a day when the activity will restart and you will need to take the train on time.

Nicolas: And of course the use of the capital increase and borrowing money from the banks.

Jean-Lin BERGE: We preferred to increase the capital as the banker weren't able to fund during this time.

Nicolas: And what is your vision about the present and future situation for these companies? Will there be a rebound?

Jean-Lin BERGE: I sincerely think that we will not have a rebound in the French economy as long as the level of charge is so high and the competitiveness of French companies are as bad. And for this there is only one solution, a reform from the State that our political power are unable to carry as they act electioneering. We are called the old Europe, but this is especially true for France as we are starting to be a country in underdevelopment given that we are not able to go forward anymore and were losing our production capacity.

Nicolas: And what are for you the most important things that a company should to focus?

Jean-Lin BERGE: The entrepreneur as to totally master his liquidity, to never find themselves insolvent, to keep an eye on his working capital and on the agreements that he has with his banking partners, his capacity to access equity from an investor to finance his project. The sinews of war is the treasury. After this, he will need to do two things, first to innovate in
product, process, management and secondly he has to involved himself across the border and export.

Nicolas: Well, thank you very much for answering my different questions

3. Interview number 3

Participants:

- Pascal WESPISER, President.

Company: GEZIM (provider of HR solutions), company of 1000 people.

Nicolas: Good morning it is Nicolas GREWEY on the phone.

Pascal WESPISER: Ah ! Good morning Nicolas. So I listen you, do you want to do it in English or in French?

Nicolas: Well, if you want we can do it in English so that I will avoid to do the translation after.

Pascal WESPISER: Ok So we will try to do it in English and sometimes I will add some French if I can't find my words.

Nicolas: Ok, so now we will start the interview. I really enjoy the fact that you accept to do it with me. Before starting the main subject I would like to know your background, what kind of professional background do you have, what kind of studies and experience in finance do you have?

Pascal WESPISER: Ok, so I studied the business law and after that I did a MBA program in management business and administration. I started in the banking business, I was a corporate banker and after that I have also an experience in pharmaceutical company and after these two experiences used to run several companies, many subsidiaries of international groups, most of them Germans. And I was also in charge in my position of the finance and administration. Then I took over a company localised in Alsace (Region of France) which is working in Alsace and Germany and of course in this company I take in charge the financial and administration part.
Nicolas: Ok, that's great. What I would like also to know is since how long have you been working in Gezim, your current company.

Pascal WESPISER: I took over half five years ago.

Nicolas: Ok, I will start the first question of the subject. For you what level of importance the working capital and the liquidity risk in particular have for you, and your company?

Pascal WESPISER: In most of the business and in my business in particular. We took our cash situation almost on a daily basis and we are working with of course a business plan and a treasury plan that I have to update on a weekly base. So of course it is crucial in finance that the liquidity situation and the working capital are followed carefully.

Nicolas: It is even more important for a company like yours which is around I saw a thousand salaries I would say.

Pascal WESPISER: Yes we have about a thousand salaries on average. Sometimes it more as there is some fluctuation. We have a personal business as we work for more or less 400 companies in Alsace and in Germany and try sometime to improve our working force. We have to check this important factor as we have to pay our employees.

Nicolas: And so how do you manage this working capital and this treasury because you have many franchise (entities) around Alsace.

Pascal WESPISER: Well, we have in total four companies and each company manage several agencies and the management of the treasury is centralized. After regrouping the different information we are able to do a business plan, from this business plan we also do a financial plan which is usually something I do for the next 2, 3 years. And i have for the coming 12 months, I have a treasury plan. And this treasury plan is my tool to manage and to be sure that there is no problems with our treasury. So it is managed centrally and we use of course this treasury plan and then daily we have a connection with our banks to make sure that our situation follow my plan.

Nicolas: Ok, so the main problem for you to manage is your cost of personal as you are a services company. How do you manage it with your income? Do you have a specific process to manage the difference between the moment you have to pay your salaries and the moment you receive the income of your services.
Pascal WESPISER: Gezim is a company that exist since many years now so we have some reserve, our equity is at a good level. So we have this first tool to make sure that we don’t need to ask everything to our bank. And we still despite the crises do profits over the last couple of years so we don't need to use our reserve to cover the loses. Then what we do is working on our customer base as in average they pay in France after 60 days which is quite a long period of time to make sure that the customers will pay on time which is not always easy. That's one of the thing we do in order to keep our treasury under control, so making a recovery system very efficient.

And then because it is something that is necessary but sometimes it is not enough we can finance also our customer by using the factoring system. So we have a possibility to use a factor for the period where we need to have huge cash out if we have some delay in the cash in from our customer we can still finance our expenses.

Nicolas: ok, that's very interesting because I also ask another financial director of a little company and they are also using this factoring process to have enough possibility and opportunity. Well, you were talking about the financial crises of 2008, I would like to know if it has some impact on your company, on your management, on your way to see how to manage your company and maybe do you change your priorities of what you have to do to insure the safety of your company?

Pascal WESPISER: The major impact of the crises was actually in the turnover in our business and for others too as it hit very badly our turnover and also the margin of the companies. So what we saw after sometime is that the turnover went back and the margin as well. So we had to fight over the last 5 years in order to catch back the past turnover which his quit difficult in a situation where there is no increase. In our business segment we still didn't recover from the hit and we are still 20 percent below compare to the situation of the general market before the crises. We fought and we succeed to recover a bit thanks to an aggressive commercial strategy. We also have a higher risk because if you acquire new customers you have to risk than some of the customers may have some problems and will not pay you. I think this was the major problems over the last 5 years since the crises started. Much more the new customers because the old customers had problems in their own businesses
Nicolas: So your problems was that you have to find other possibilities, opportunities and the other problem was the trust between you and you customer because you were sure to offer a service but you weren't sure to have the income...

Pascal WESPISER: To take the money back yes. And so what we could see is that the customers are paying later and later, our ratio increased by more than 20 percent over the last 3 years as before they were able to paid over 45 days, now they pay over 65 days.

Nicolas: Yeah it's impressive.

Pascal WESPISER: it is a gap you have to finance. This year we had a turnover of 38 Million Euros and if you considered that you have an increase of the payment day it represent more than 1 Million Euros to finance.

Nicolas: And about a more private equity view, did the shareholder point of view changed a little bit for your objectives, your turnover? or did they want the same return as before?

Pascal WESPISER: Well, I'm also a shareholder, not the only one but I'm also a major shareholder and I see the shareholders of the investment funds. So of course they do not need a return on investment on a yearly base. But what they want is to make sure that the global investment is interesting. it didn't have much of an impact over our treasury for the last years, maybe in the coming 2 or 3 years when they believe it the return is enough they will leave. That's how investment funds work.

Nicolas: Did you take some drastic decision during this period of crises to keep safe your company like to dismiss people or to sell some assets.

Pascal WESPISER: As I said before, when I took over the company was around 9 Million Euros of turnover and we will probably reach this year 38 or 39 so we have an increase. So I didn't use this issue because despite the crises and thanks to the good strategy and the quality of the team, we were able to succeed to increase our result so I didn't need to dismiss, I even hired some employees as in the agency we went from 10 to almost 40 people.

Nicolas: And so your relationship with banks were also great or..

Pascal WESPISER: Overall yes, the relation was good as we were always transparent with them so even during tough years in 2009 and 2010 when it was really the difficult part of the crises we were still able to maintain a good relationship with them.
Nicolas: And now at the present day, how are you able to plan you liquidity risk and you working capital management?

Pascal WESPISER: I do a financial planning for the coming 3 years, I do a budget which is for the coming year and I do a plan which is the treasury plan. I do some liquidity calculation called a financial plan and I do a detail treasury plan for the next 12 months

Nicolas: i’ asking because the little company that I interview before, well they are safe and they have some income but they are not able to have good view of the future as they are just able to plan on two weeks ahead so...

Pascal WESPISER: Well, of course nobody knows what the future will be but I do a business plan according to that knowledge of what I believe will come from the business in the coming months. Last year as was enough lucky to reach my budget, more or less. i try to have my budget as accurate as possible but it is only a budget, if I have the feeling that we will not reach it. My budget is not changing but my forecast will change and I will adapt my treasury planning according to this. To answer your question, I think I’m in a situation where I can plan for the coming at least 6 months.

Nicolas: Ok, so you have at least a good view of the future.

Pascal WESPISER: From our customer base, from the information I have and the experience we have and the business I have I think I can do something which is approaching.

Nicolas: And to analyze your current situation do you use some specific ratio because you said that you do a financial analyze of your situation but..

Pascal WESPISER: I do the typical profits and lose analyses every month that I apply for each agency and this something I do on a quarter bases and of course I compare it with the previous years and the budget and then starting the second quarter of the year I will work already on the lending for the year, so it is also a tool that I have. My ratios are the cost ratio for the agencies, the margin is also very important and this is something I track on a monthly base. And if I see we have some variation I can try to find out why. So this mainly is the tools that I use.

And of course my treasury plan is something that I control every month. As once the month is over I have the exact situation of our bank account and then I make a control with my treasury plan to see if I was or not on my plan and if not why.
Nicolas: ok and now that are more than 5 years ahead of the financial crises, if we come back and we see your past, how could you analyze it? Did you maybe criticize some decision that you took before, you would prefer to do another one or are feeling confident about what you did?

Pascal WESPISER: At first I would like to say that the crises isn't yet over. We can't say that we are 5 ahead of the crises as there is still one. Of course the very hot part of the financial crises is behind us but we are still of the middle of the economic crises that followed. When I took over in the company it was already the crises, it was in 2009 so I actually just lived 5 years of crises and we still remain in this situation.

Nicolas: And what do you think about it, not only your company but in general for your sector of activity?

Pascal WESPISER: My sector of activity is still not in the same situation as it was before the crises. As I mentioned before we are more or less 20 percent below the business situation before 2008.

Nicolas: And what is your opinion about the future of your company? The future situation of your working capital, liquidity risk.

Pascal WESPISER: I think that we can succeed in the crises as our work on the capital situation is rather improving but my fear is that many companies are facing financial problems, well... i have no financial problems but my customers have, so if they have financial problems they will not invest in the same way they did in the past and they will have more and more trouble to pay. And I think it will be the emerging problems for the next 2, 3 years as most of them already used all of their reserve

Nicolas: Do you follow a specific Enterprise Risk Management process in your department?

Pascal WESPISER: Well no as we are only two and a half focused on the accountancy and I direct it. Moreover we have one employee for two companies of the four and then they are control by myself so no risk of losing important information.

Nicolas: Well, thank you very much for answering my different questions
4. Interview number 4

Participants:

- Yves Fritsch, Administrative and Financial Director.

Company: A2micile (service person: housekeeping, child care, maintaining a home, gardening, gym classes), company of 4000 people.

Due to a bug, for this interview there will be only an objective resume done by the notes that I took during the interview.

The company has been created in 2005 and propose services to the person and started with three agencies.

Nicolas: What level of importance the working capital and the liquidity risk have for you? For the company you’re working for? Could you explain why?

Yves Fritsch: The level of importance for the working capital management and the liquidity risk is high and must be control carefully. In the measure that she define the capacity of the company at a financial and general level it is either industrial or commercial nature. it has to be able manage the different factors such as the expenses, the stock if there is and of course and maybe the most important the receivables of your income.

Nicolas: How do you manage (or your company) the working capital? Do you have some specific tools to help you?

Yves Fritsch: Just that you know first, we are using a franchise system and our accountancy is centralized in Strasbourg. So all the agencies that are installed in France for example send to the financial department in Strasbourg their accountant's information that we treat and gather. Also to speak about our situation, we are currently in a comfortable situation as we are able to perceive our receivable before we to pay our personal cost which is the main cost for us as we are a service's company. As a consequence we are in a comfortable liquidity situation and we don't feel any pressure for managing it. To give you an idea of how well we are, we currently have, our cash surplus is about 3 million Euros cost included. To see our situation and to be more specific about the way I control and check the situation of our company, I simply check the situation of our bank account and see if we are good. I don't really have any process for this at the present time, it actually on work as I have to adapt and create them during the year.
Nicolas: Given that you have a great cash surplus, does your financial investment are riskier than it would be in other company?

Yves Fritsch: From my past experience, companies always use safe financial investment that paid just enough to counter the lost of money through the time. As you know due to the actualisation of the money, it lost a little bit of its value. My mission is also to keep this value and it isn't to take and increase our risk by investing on a riskier financial investment. So we mainly use safe medium term bonds.

Nicolas: How do you manage your liquidity risk? What factors do you take into account?

Yves Fritsch: I don't have specific tool that inform me of a limit that has been passed. The situation of the company is analyzed through the accountancy with dashboards half yearly and from the control of our bank account.

Nicolas: What was the impact of the financial crises in 2008 on your company and on its working capital and its liquidity risk? What about the years after? Did that change the vision that you had about the working capital and the liquidity risk and their strategy, about the priorities of your company?

Yves Fritsch: Our company didn't received any damage from the financial crises of 2008 and the economic crises that followed as its turnover and its result didn't stop to increase. Yes of course it has an impact on the value of our shares, but came back at a normal value due to the time that passed and mainly due to our exceptional performance. This comfortable situation is motivated by the fact that the State itself that help our segment of the market by using the Borloo's law that directly reduced the personal cost, the social cost and the price of our market and the customer directly have a tax credit of 25% of the value of the service. Plus the fact that we are on a good market that is growing fast, that gave us all the element to be efficient, and I have to say that we even feel a bit shame to have such result (Laughing).

To speak about our priorities, our main strategy didn't changed during the crises as we still continue to focus on the external growth that are invested with an augmentation of the capital, fundraising that has been done with the TEPA’s law on 2009 around 1.4 Million Euros. To finance ourselves we also of course the banks and we borrow at an advantageous rate as our situation is very good and we play the competition between banks, as the literally fight themselves to obtain us as their customer.
Nicolas: Wow, that's impressive... (I checked for some other questions as I'm a bit surprise of the answer), well. Don't you use some investment funds to finance yourself or maybe convertible bonds or the factoring process?

Yves Fritsch: No, we don't have any investment funds and we do not use the convertible bonds to follow the will of our president and shareholder mister Joel Chaulet, as he prefer to stay independent and to keep a certain control over the company. Moreover we already have a floating that represent 30 percent of our capital, so it isn't in his vision to increase it more. As for the factoring process, we don't use it because the receivable are also checked by the State due to the tax credit and we do not have any problem to perceive it.

Nicolas: To come back to a more intern point of view, do you have a specific working capital cycle and what do you think about its situation?

Yves Fritsch: Concerning our working capital cycle, it the same as a normal services company as the personal cost in the middle of our problematic given that they represent 70 percent of the cost that we have to pay every month. On a less frequent way come the fixed cost such as the phone, the electricity, the rent or our website that we usually have to pay every 3 months. And in a more long term view, what we call the major works and the informatics stuff on average every 3 years.

Nicolas: And how do you plan your working capital and your liquidity risk?

Yves Fritsch: Concerning the planning of the fluctuation of the working capital or the liquidity risk, we do not have one. This is due to several reasons, the first one is that the company evolved fast on a franchise base. We were 2000 people in 200 and this year we will be soon around 4000 people. So due to this fast growth the tools and the method of analyze of the liquidity risk are not already in place. I'm working on these tools this year so that I will able to have a better point of view.

The second reason correspond to our environment which is very favourable and leads us. Our gearing ratio is at 63 percent which is good. So our attention isn't focus on our intern risk but more on the extern risk concerning the implantation of franchise on new markets and country. As some years before we tried to implement a franchise in Belgium but we failed as we weren't aware of the specific environment of this country. So after this failure we analysed it in more details and we were able to do a comeback and now we have 8 agencies in this country.
Concerning our accountancy, as I told you it a centralise system and it is gather in the headquarter here in Strasbourg. So it count the accountancy from France and Germany. We have a particular case for Belgium as we have a little accountancy department, that is installed there and treat the 8 agencies. And they gave us the fruits of their work, the dashboards so that we can do the reunification of the account.

Nicolas: And what is your opinion about the future of your company?

Yves Fritsch: For the next years I'm not really worried about our intern situation. We have to stay focus on our external growth and to stay focus on our competitor as our market is still growing.

Nicolas: Well, thank you very much for answering my different question.

5. Interview number 5

Participants:

- Geraldine Pradoura Ciotta

Company: Hager, 11 000 people, Industrial company

Geraldine Pradoura Ciotta: Hi Nicolas GREWEY. Well the technical stuff is working, so maybe I'm going to share my desktop with you so we can start the online interview. Let's see, does it works ? Can you see my screen?

Nicolas: Yes yes, very well.

Geraldine Pradoura Ciotta: Ok, so thank to have sent me the questions.

Nicolas: Well thank you first for accepting my interview, I really thank you. It will help me a lot to do my thesis. And I know it's not easy have one hour free to spend it with a student like me, so thanks you very much.

Geraldine Pradoura Ciotta: So I hope I will be able to help you. And I hope you will not be too disappointed with the answers. Because you will see we are not typical, but we are very strange you will see. But I want you just to understand that it is important that you can use the information. But I would also like that it is not possible to make the link between Hager and
the data. So you can say that you interviewed us, you can use the information in a global size but not to make links between some indicators and the company.

Nicolas: Yes, as technically what I am interested in is your thinking, your experience, your process and your ideas about the working capital. I'm not interested in your specific information of your company so I suppose it will be ok.

Geraldine Pradoura Ciotta: Ok, so let's try.

Nicolas: First before starting the main subject I would like to know experience, what kind of study did you do and if you went to other company before.

Geraldine Pradoura Ciotta: Yes, so I studied the business school in France, at the ESP. I started to work at a auditing company, Ernst & Young where I worked for two years. After I joined Hager for 5 years as a marketer real controller for zones. So I was working to controlling and supervise the commercials activities of country like France, Italy, Spain, Portugal, Greece and Belgium. Afterwards I moved to the industrial controlling, I worked for business divisions for producing main protection devices. Such as electrical devices in the house protector, the equipment and the person. Maybe you know from your mother?

Nicolas: Yes she told me a little bit.

Geraldine Pradoura Ciotta: (Laughing) And then worked as a financial controller for the industrial activities. After I left Hager I worked at Novartis a a big pharmaceutical industry which is different from Hager because it is a public company, coated in the stock exchange versus Hager with a more family order company. I worked there for two years and after I joined again Hager as a Group Industrial Controlling Manager.

Nicolas: Wow, it's impressive. I would be lucky to do the same.

Geraldine Pradoura Ciotta: Yes but that what you are looking for as you are in finance also I guess?

Nicolas: Yes. So now we will start the first question. I would like to know what is the level of importance of the working capital management and the liquidity risk, for you personally and for the company you working for?

Geraldine Pradoura Ciotta: I think in fact at Hager we are very...well we are not typical because we are a familial company that had a lot of success in the past years with no debt and
with a lot of cash and liquidity. (Nicolas: Oh...). So we have cash surplus and we have no need to finance our growth through the debts. So currently we never met at Hager any cash problems. And so that's why we are very typical because as we are like rich company (laugh) also on the working capital you will see through some data I prepared that I think we are not at all the best in this. Not at all, we have a very high working capital especially with the stocks. As for me, they are high. Well I think we manage quite well the customers factors. As on the trade payables, also what is very strange is that we tend to pay early to get a better prices. Because if you pay earlier to your suppliers you can get a discount and as we have a lot of cash, it is more interesting to pay earlier to have a good price. If we would have debts, of course it would be different. but we are not the best in that as we didn't have issues on the subject.

Nicolas: And so I suppose that this stock management is linking to your business activity and to your size of the business?

Geraldine Pradoura Ciotta: Yes of course, the stock management is the one. Well maybe we can go to the indicator so that we follow. I hope you can see them on the screen. I prepared just, I listed just the three Key Metrics we have to follow the operations of the working capital. You might certainly have learn about them in the books. We have the day of sales outstanding, I don't know if you are familiar with it. The DSO.

Nicolas: isn't it the gap between the receivables and the payables? I'm not certain anymore I have to say.

Geraldine Pradoura Ciotta: Well, in fact for me working capital is receivables + stocks - payables. So that's the operating working capital. That's what we follow at Hager and so there are the receivables, stocks and payables. And thus three items we follow them through operations indicators that we call Day of sales outstanding. Well, maybe I can explain. So the day of sales of outstanding, you have the receivables and you look at how many days of turnover it represent. So for example if you would have invoice during all the year and nothing has been paid your DSO (Days of sales of outstanding) would be 360 because nothing has been paid yet. If everything is paid if you would invoice and paid immediately, the DSO would be zero.

Nicolas: So it is an important indicator to see how you manage your performance?
Geraldine Pradoura Ciotta: Yes so at the end it the account receivables divided by the sales multiply by 360 days. I guess you are already familiar with.

Nicolas: Yes I already studied this subject a bit.

Geraldine Pradoura Ciotta: Yes so in fact it is the same logic as the inventory. We look the value we have in the inventory and we look how much cost of sales it represent and we converted into days. And we call it Days Inventory Outstanding, in fact it is the number of days of the inventory. It means if we would stop production, it is the number of days we could continue to invoice customer because we have the product on hand. And for the Days of Payables Outstanding, it is exactly the same. We look what is our debt to the suppliers and we look versus the annual purchases we have and we look how many days we have in fact of services or product they provide to us which is not yet paid by us.

Because it is the payable divided by the purchases multiply by 360 days.

Nicolas: And did you have an impact with the crises that you felt in 2008 about thus fingers.

Geraldine Pradoura Ciotta: Yes maybe we can look at it. I will try to show you an overview about thus indicators over the years. So I don't know if you can see my screen. So the DSO you see since 2010, in fact we have been decreasing each year. On the DPO we see that in 2009 it went down and on the DIO in fact we are usually around 100 days in stock and in 2009 it reduced strongly. So let's focus on the 2009 value. We had a very interested reaction at Hager. When we saw the crises we thought that we have to be very careful and react immediately to not create an additional risk for the company. And you see that we decreased very strongly the stocks to 70 days. So we saw that the level of activities were decreasing and we decided to immediately decrease the loads in the factory and to decrease the stock. And so we reacted very strongly. But in the other hand, a hundred stock days is a lot and is very high which represent more than three month of stock, so in value it is huge.

Nicolas: It is also due to the fact that you are operating outside of the borders and that you are an international company I suppose ?

Geraldine Pradoura Ciotta: Not only, I think it is because one of our key target is to offer a very good on time delivery to our customer. So we target a 98% on time delivery which means that when we receive an order from our customer can deliver a certain pieces to a certain date and for us it is a key success on the market to have our product available. So we
have made the choice to have a high level of stocks to be always able to supply our customer and to have a very high service level. So the fact to have a high level of stock is to guaranty the very good availability of the product for our customers, because we want to have a relevant service.

Nicolas: And of course it has an impact on your costs

Geraldine Pradoura Ciotta: It has an impact on our cost because we have a lot of money in the stock as it is very high, a 100 days is very high but today currently we have the chance to have a lot of liquidity so it is not so much a burden for us as we rich enough to don't need this money for other things. But maybe if we would make many acquisitions, maybe one day it could change and become more a burden. So what you are currently seeing on the DIO curve of 2009, we made the choice to decrease the production of the factory and to decrease the stock, so we reacted strongly. Because the risk is, when you have a crises and the sales goes down. The big risk is that you continue to produce, you hold your stocks, the companies will not sale anymore and the stocks become obsolete. So here you see in 2009 we reacted strongly. And also by doing so we increased the issues in the plans, in the factory as it was less productive and so profitable as there were less product to produce.

Nicolas: And you did this because you expected your customers to not be able to have the same performance as before and so not be able to pay you.

Geraldine Pradoura Ciotta: No, we did this because for us it was a trend that customer would requested less and if we wouldn't do this, our stock would increased and increased again and again. So we adapted, we reacted quicker than the market, in fact it means also that we thought that the crises would be worst. It means that, when we started the actions, we saw that the crises would be worst because we decreased more than 70 days. I think the target wasn't so high but we put actions in place to go fast because the turnover drop would be worse. And after it come back again, so it went very low to 81 in November which is huge, and then we started again to product. So in 2010 we saw that we stabilized the situation and we increased our production to have the same DIO days than before the crises at more than 100 days.

So it means that we anticipated the crises, we anticipated the worst case scenario by decreasing strongly our activity by using our stock. And the plan went better that what we expected as we could build up again just after.
Nicolas: It is quite impressive because theoretically a big company like yours is not so flexible and so quick to react. It is more like a SME ability and the fact that you are anticipate like this the worst case scenario, yeah, it is impressive.

Geraldine Pradoura Ciotta: Well, at that time, it is when I joined back the company and I was also impressed by the reactivity. Because it is very hard and the consequence of the plans are high. People were really I think anticipating a big crises.

Nicolas: And so, personally what do you think of this crises, how do you analyze it?

Geraldine Pradoura Ciotta: In the case of Hager, for me we were fast actions taking but it was just like just to save the crises moment. After, for me we went back to a normal, like a fool at the end. Because if you look when things are going bad we are able to act quickly but it means we didn't learn and we came back to a normal way of proceeding which is a very high level of stock. So that a little bit of a paradox. The paradox to be able to act quick but we do not change the processes, it was more like a fighting action.

Nicolas: So it was more like an emergency management.

Geraldine Pradoura Ciotta: Yes. So the good thing is that we were able in the emergency to react quickly, the bad thing is that at the end we didn't learned and we didn't improved really. I think for your thesis also, one company that would be very interested to study is Novartis. If you take the annual report from 2005 to now. Because they have made in 2007 and 2008 just before the crises, they have made strong actions to reduce their working capital and to decreased the stocks. And certainly by analyzing the annual report and to look at the stock evolution, I think you may be very surprise by the trend and there are some comment also in there. So maybe for your thesis it would be interested to go on internet and to get that from them, because they are public. And I think their stock value is much more better than we are as they more financial oriented.

Nicolas: And what I also want to know is the manager behaviour against this risk of liquidity. How do you face it.

Geraldine Pradoura Ciotta: I think that we are very cautious because we invest a lot in machines to be able to upgrade the production but we do it always with a payback calculation and we give a green light to project which has a payback below two years. So it is quite demanding as it means that when we invest money we want to be sure that in two years we...
have the money back. So from an investment size, we invest only with the calculation and the time track to earn back the money has to be short.

Also we make some external growth by buying and acquiring some companies. But don't want to acquire risky ones and we are not ready to overpay. So may be some times there are acquisitions we do not made because the price was to high versus what we were sure to get. But we had also some very good purchases, some German company that are making good result and where the pay back times is longer but where we have in our eyes the certainty of a positive income impact.

So, yes we are rather cautious when we invest the money we make a lot of analyzes to evaluate the return, for the machines and the companies that we would acquired. And we don't have a strong believe to get the money we do not go.

Nicolas: Ok, and what I would like also to know is...well I suppose that you are planning your budget and your business plan. On how many years or month are you able to see the future I would say, too able to predict what will happen.

Geraldine Pradoura Ciotta: (Laughing) In the past we had on average a three years plan. And in fact today we are more in an annual logic. So of course we make a budget and for the structures of the projects. As for example if we plan to rebuilt the factory, as we did for example in India last year. Of course we project it on several years. So the budget is annual but for structural project like an augmentation of a factory we plan it over five years on what we expect.

Nicolas: And when you take some decisions which would could be strategically or minors do you base on some specific ratios like I saw already or do you also use your experience and instinct I would say.

Geraldine Pradoura Ciotta: (Laughing) No, No. No we use the Payback method and the Net Present Value to reduce always the financial template, so when we put the cash invest and the cash flow we expect from the project. For any big project we do, even if it is just assumptions calculations. There is a calculation with the Net Present Value (NPV) versus the value of invest. And we look at the payback time which I told you should be below two years, for bigger project it can go to 4 or 5 years.
Nicolas: And to measure your liquidity risk I suppose you are using the quick ratio and the current ratio.... To measure the liquidity of your company, I saw that you took the days of inventory and..

Geraldine Pradoura Ciotta: Yes but, that's for the stock. I don't have any measure on the cash. We have a lot of cash and it is follow up by the treasurer of the company which is looking at the cash situation and making forecast, etc. But it isn't in our daily operations we don't with...And we are cash surplus so we do not have a problems with cash (Laugh). For us we have the luxury that cash is not an issue. We have a lot of cash available for projects.

Nicolas: And is it possible for you to define your working capital cycle of your company.

Geraldine Pradoura Ciotta: I don't know what you mean.

Nicolas: The interaction between the receivables, the payables and your stocks.

Geraldine Pradoura Ciotta: For me it is what I show you with, the DSO, DIO and DPO. For the sales it is around 55 days today, the DIO it is around 100 days. And for the DPO it is very low as we pay early to get a better prices so around 23.

Nicolas: And what I would also like to know is how is your general market? Because I can understand that you are going good and that you manage well but in comparison with the general market. What is its performance?

Geraldine Pradoura Ciotta: It is interesting because of your questions I went to Legrand and Schneider on their website (Laughing) and I compared the two DIO. And first I was thinking that they were more better than us, and so they were with 75 days. But on the receivables in fact we are between Legrand and Schneider. So I was surprise because I thought that they were much better than us but they are not so much better.

Nicolas: Ok, so in fact you can say that you are in the middle of the market.

Geraldine Pradoura Ciotta: Yes, I saw that we are not good, but we are not so bad.

Nicolas: (Laughing) Which is good.

Geraldine Pradoura Ciotta: (Laughing) Yes I was positively surprised because you always think that you are not so good. You always see public companies are better, but it is on the average.
Nicolas: Ok, And what I would like also to know is... well maybe it is more financial question. What is your financial sources? Are you using your Net Working Capital to finance the liquidity assets or do you also use the increased of capital to finance yourselves?

Geraldine Pradoura Ciotta: Well we have enough cash reserve to finance our activities. And from the past we have enough cash to finance new activities. And when they are...for example in India when we built a new factory. If the subsidiary company doesn't have enough reserve, it will be finance by the group through capital increase in the local entity to be able to build a factory. Well a part is the increase of the capital and the other part is a loan that the group do to them. But it is just our intern management because the cash we have need to be finance with the bank.

Nicolas: That's interesting. What I also would like to know is the feeling that you personally have about the working capital management of the company for today, because understood for the past, and for the future. What are your fears and what are your good expectations.

Geraldine Pradoura Ciotta: So fears I have none. Well my personally would be that we could do much better. I think that we are managing good so we don't have majors issues but it could be much better especially in the stock level. I think that if we would carry up some project we could have lower money in the stock and a lower stock level. But I would say that currently it is not our top priority, as for us it is to develop new products, new projects for our customers in our market. And today the main purpose of the company is the extension of ranges and the market ambition.

So it is theoretically the contrary of what we did in 2009. In 2009 we were in a crises situation and we were thinking "Well, no it is the crises, we have to be robust, we have to save all the financials indicators to be able to guaranty our financial independent and when times would be better we will be able to invest again. And it is exactly what happened, we acted very quickly to secure the result, the finance and the cash and when things started to get better we could have made the choice to work hardly on the stocks level of the working capital, etc.

But in fact we made the choice to focus our actions on developing new product for new market. I would said the focus is not there because we have more to win in the turnover ambition and the product development. So I would say we could be better but today we have
other things which are more cash generating than the working capital. And it is good because we are working on the big pictures, the big projects.

Nicolas: Ok, because one of my participant said that "Yes the working capital and the liquidity management are important, it can make you lose but it's not make you win the game, yes"

Geraldine Pradoura Ciotta: Yes that's I said with other words. It is important to put your attention in place that are the more contributing.

Nicolas: Yes. And so, are you also using the opportunity cost for example to compare if you have to do something or no. Or you are just going out and invest what you can when you can earn something from it.

Geraldine Pradoura Ciotta: I think we invest if it make sense in our global strategy. We are not opportunistic. We have a 5 years project within the group where we decide the accent we want to develop, which market, which product line, which offer to the customer and we only study what is inside our strength. We are not opportunistic like, this is the cash cow in another sector, we would not buy. We will only buy what make sense to our business or to what will be the business tomorrow. I don't know if it answers your question.

Nicolas: Yes, yes, it is ok.

Geraldine Pradoura Ciotta: So we are driven by our core product, our core offer to the customer, we are driven by that. We are not driven by buying something with a good money. it is really entrepreneur.

Nicolas: Ok, I have another question, on another subject. I would like to know if for you, something like a change in a price level or the dividend policy or if you have a seasonal activity I don't know, impact your working capital.

Geraldine Pradoura Ciotta: We have seasonality but specially because in some market there is a promotion time, we have some commercial hobby. For example in France we do like a promotion at the beginning of the year to boost and to start strongly the year so then we need to build up the stock at the end of the year. But it is a minor business, it's because we decide to do a promotion. What impact us strongly and also for the stock are the tax which are charges according to the country. And sometimes it is difficult to constrain, as we are present in Brazil, India, China and several country. And when it is not so easy is when there are some
tax charges, import tax charges which doesn't help us to define the right setup were we want to locate the operations on the stock. But it is a little bit outside of your subject.

Nicolas: No, No, because I'm also talking about what are the motivations to keep the liquidity and they are some theories such as the transaction motive or the tax motive that you just said so it is just perfect (Laughing)

Geraldine Pradoura Ciotta: (Laughing)

Nicolas: Ok so what I also want so say...Ok I just lost my question... And so at the end, I will just compared with the SME that I interviewed and what I can see is that you told me a lot about calculation, ratios, how you measure your possibilities with logical tools. And when I saw back the answers of the SME, they didn't talk about this at all and they just talk about experience and instinct and it is quite funny i would say to see the gap between your way you manage the working capital and liquidity and the way they manage it in fact. It's kind of you manage the trade off between the liquidity risk and the profitability in another way. It is not the same finance I would say.

Geraldine Pradoura Ciotta: Yeah it seems very interesting, so how do they make the trade off? Because from my experience it isn't so easy.

Nicolas: Well they do it like checking their accountancy and there bank account, literally. And they don't have any specific ratio which is surprising. And when I just check what you told me on this interview it's more like...yeah a logical tools for logical fact in fact. Yes it is very good.

Geraldine Pradoura Ciotta: And what are the size of the company?

Nicolas: it depend it start from 70 people to 4000 people.

Geraldine Pradoura Ciotta: And we are 11 000 people.

Nicolas: So yes there is a gap. Well I don't know if you have something else to add that I maybe forgot on the working capital management which could be interested to add in the thesis.
Geraldine Pradoura Ciotta: Well, I don't know. Well I am surprise as I thought that we were not benchmark at all. But from what you told me, maybe we are not so bad. (laughing)

Nicolas: Because what I want is the behaviour of the financial manager, what they are doing in the reality in fact. And you told me this and this is very interesting.

Geraldine Pradoura Ciotta: And how many people did you have the chance to interview?

Nicolas: Four and you are my fifth interview.

Geraldine Pradoura Ciotta: But did they have some cash issues or not?

Nicolas: Some yes and some no. But the fact were that they were lacking financials tools.

Geraldine Pradoura Ciotta: So maybe at the end what I can say is that Hager is prudent and a little bit conservative and we like to take minor risk when we are putting cash in something. Maybe it's because we are also...were they also a family company?

Nicolas: Yes. So it is kind of the same culture I would say. It is kind of a German culture, I don't know if it is correlated but may be it could be.

Geraldine Pradoura Ciotta: Well we try to be cautious and to secure what we do. And from the information you give to me, really highlight this. As each time we take a decision we try to evaluate the risk. And finally it prove to be quite efficient.

Nicolas: It seems yes. And I would like also to know if you have a specific Enterprise Risk Management process in your department. For example, in a financial department you have the financial director, the responsible of the accountancy, some assistants. And what I want to know is if you already analyze the risk of losing some important information. Due to that fact that maybe you are too many people to work on different mission and lacking to exchange the information.

Geraldine Pradoura Ciotta: I think we have a risk management structure. We have a risk manager which is taking care of all the issue inside the group. Also for all entities we try to identify what is the biggest risk in terms of business continuity. For example if we have a field around a river, we study what is the risk that the river to overflow and how we can secure that nothing can get damage. And if they are key facts, we try to secure it or put it somewhere else. But still we try to have a plan B in case something wrong happen. And we
have also a crises cell, in case something happen anywhere in the group as for example a factory which is on fire in china. We would be informed immediately through this process.

So there is a line where in each location there is always somebody responsible to be aware if anything happen and to forward the information to be able to take actions and decisions fast.

Nicolas: Another question about your intern management. I'm curious to know if there is different culture in your financial department. Because it could impact the way people see the risk, the strategy or the way you manage things. So I was curious to know if there were different culture like French, German, Indian people.

Geraldine Pradoura Ciotta: I believe not, I believe we are relay centralize in Germany. They are some rules that everybody has to respect, like reporting, the dead line for the budget. We have a financial manual that explain what are the rules to be applied. I think we have a good homogeneity and also we are an organization were we have some division that is contact in Brazil, China, monthly, to review and gather the results on the budgets, also on what is happening that have an impact. So there is a strong communication. With this monthly report we know everywhere what is happening.

Nicolas: So you are still hands on the subject.

Geraldine Pradoura Ciotta: Yes, for example at my level I have some course with the finance set of the key entities. It is a very finance community.

Nicolas: Well, thank you very much for answering my different question.