

MANAGING PRODUCTION WORKING ASSETS AS A CORNERSTONE OF OPERATIONAL STRATEGY DEVELOPMENT

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Abstract: Industrial enterprises rely heavily on their production operations, which transform various resources and materials into finished goods. Central to these operations is the management of working capital—funds used to purchase raw materials, supplies, fuel, and electricity. Skillful handling of these current assets boosts production efficiency and generates positive outcomes. Because working capital provides the essential resources that keep operations running smoothly, its optimization is critical to overall success. In short, the combination of streamlined production processes and prudent working-capital management is vital for the sustained performance and growth of any industrial firm.

Key words: production, industrial enterprise, resources, working capital, efficiency, management.

Introduction. Industrial production draws on financial, material, informational, and human inputs. A substantial share of operating costs stems from material outlays—chiefly raw materials, fuel, and electricity—so the way these inputs are used directly influences operating performance. Against this backdrop, working-capital management sits at the core of a firm's operating strategy. Because working capital embodies the resources required for output—from raw materials and spare parts to fuel and power—its skilful administration drives stronger results. In short, effective allocation and control of working capital keep production flowing smoothly, optimize the delivery of goods or services, and ultimately boost an industrial enterprise's overall success.

Methods. In order to study the issues raised in this particular article, to explore in more detail the role of staff motivation in development of small business and private enterprises, during our research we used the methods of scientific abstraction, induction and deduction, methods of observation, logical and structural analysis, grouping, mutual and comparative comparison.

Results. Strategic stewardship of working capital seeks to optimize resource use while boosting financial outcomes. Essential components include determining economical lot sizes, fine-tuning cash balances, and building strong planning and control systems. Continuous monitoring of actual results against targets lets managers correct deviations promptly, cutting costs and sharpening competitive edge.

Yu. N. Kulakova emphasizes that the first step in working-capital administration is setting clear objectives, which shift with the firm's life-cycle stage and external setting. Typical aims—maximizing net profit and profitability, expanding sales of finished goods, growing market share, and sustaining a sound financial position—cluster around two overarching priorities: raising operational efficiency and containing financial risk. Every working-capital decision should reconcile these twin goals.

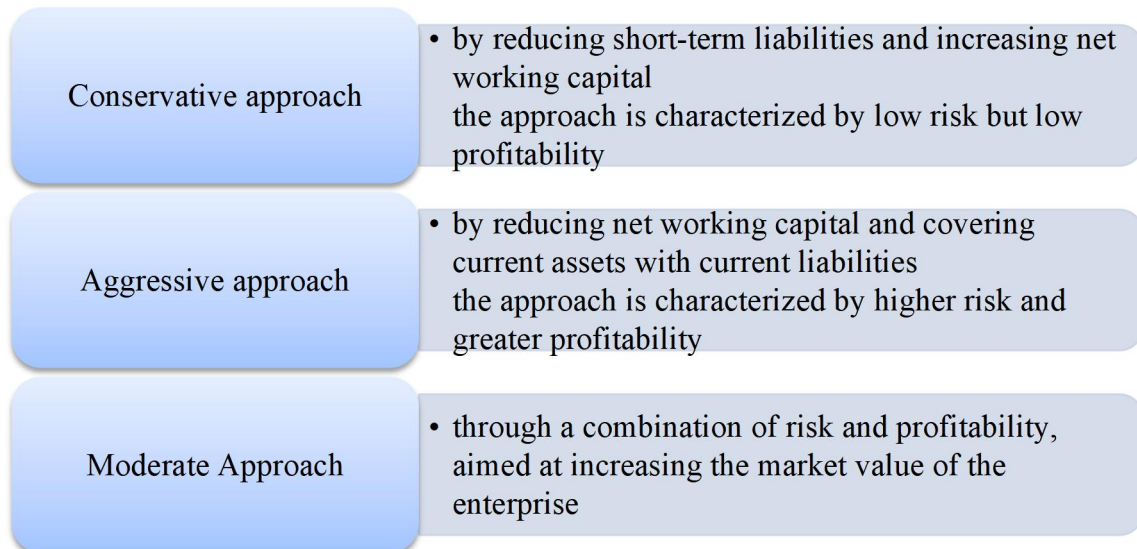
An enterprise's inventory-management strategy lies at the heart of this balancing act. Pursuing faster asset turnover often entails higher-risk financing instruments that can erode reliability and solvency, so managers must strike a compromise suited to actual operating conditions.

Turnover ratios and cycle times remain key gauges of working-capital efficiency; improvements here signal better overall performance. Yet effectiveness also hinges on factors such as

production capacity, product quality, logistics, and timely settlements with suppliers—elements that any thorough analysis must include.

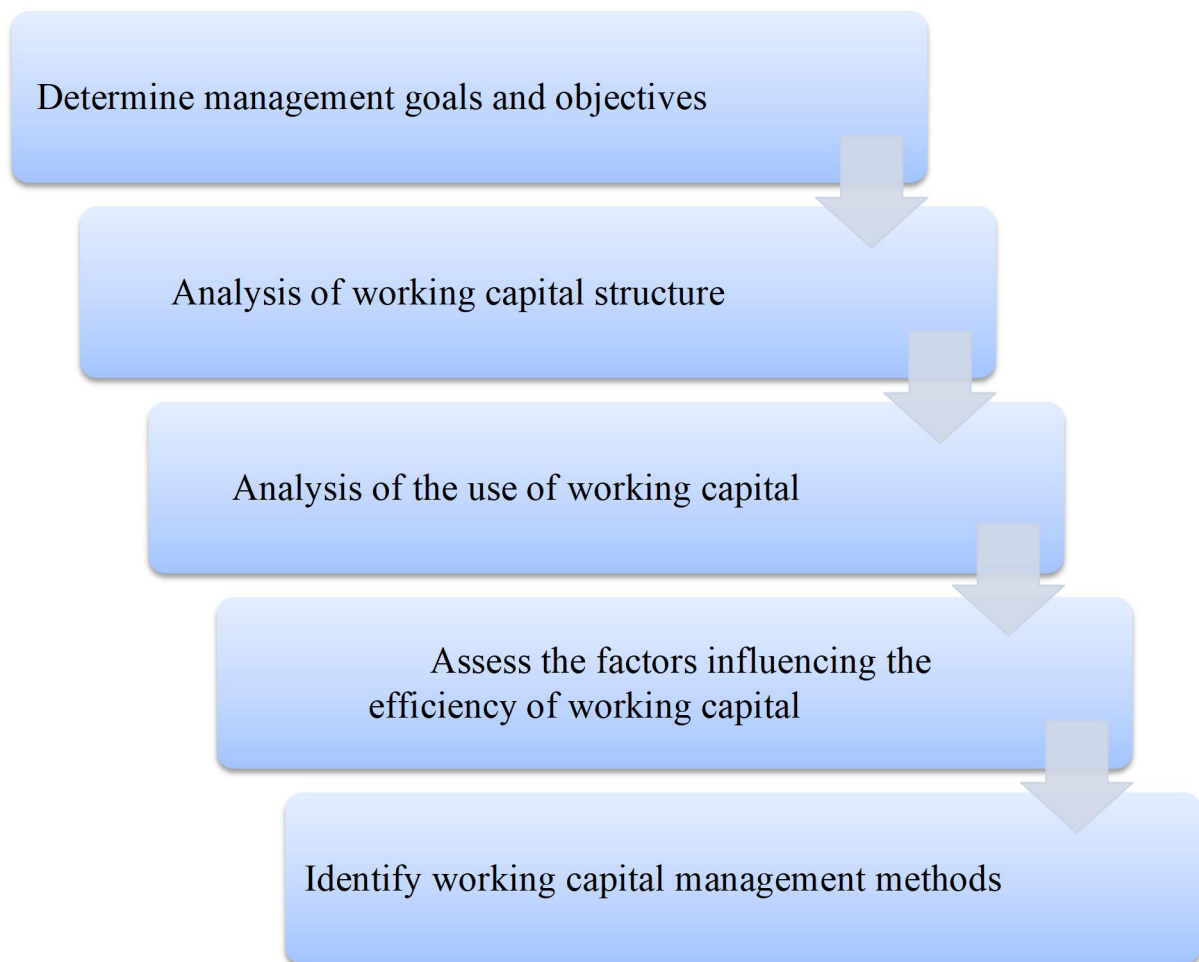
Finally, the inventory-management operational strategy forges the bridge between the firm's overarching direction and its day-to-day activities by detailing the specific tools, techniques, and decision algorithms required to achieve strategic objectives.

When forming an operational strategy for inventory management, various approaches are distinguished that take into account the characteristics of the enterprise and its needs. (Fig. 1).



Pic. 1 Approaches to the formation of an operational strategy for inventory management

The required level of working capital is set by finding the best balance between two objectives: maximizing its operating efficiency and limiting the solvency risk that could lead to bankruptcy. Achieving this balance means weighing potential returns against the maturity and cost of each funding source. Because the enterprise's overall performance hinges on that trade-off, sound working-capital management is essential—the model adopted for managing current assets ultimately shapes the firm's efficiency as a whole.



Pic. 2 Working capital management methodology

An important element of the working capital management model is inventory management. The following techniques are most commonly used in inventory management.

Direct counting method. This methodology is based on the rationing of enterprise inventories by summing up the following necessary elements of inventory storage: current stock (T1), safety stock (T2), transport stock (T3), technological (T4) and unloading stock (T5).

The standard stock in days N is determined as follows:

$$H = T1 + T2 + T3 + T4 + T5 \quad (2.4)$$

For planning purposes, the standard must be defined in monetary terms:

$$F = \sum [H_i \cdot P_i / 100] \quad (2.5)$$

Where F is the need for inventories in monetary terms,

P_i – consumption of each type of inventory for 1 day

H_i – standard reserve in days.

This method is quite actively used by enterprises in such industries as industry and construction. The direct counting method is not difficult to understand and is sufficiently justified; it makes it possible to accurately calculate the enterprise's needs for different types of reserves, taking into account the enterprise's technological cycle. The disadvantages of the method include its significant labor intensity.

2. Analytical method. This method is based on the presence of average actual balances at the enterprise. Applicable if in the planned period there will be no fundamental changes in the technology and organization of the enterprise, and the share of working capital in the structure of the enterprise is quite high.

When using this method, inventory requirements are determined using the following formula:

$$O_z = V_p / V_b \quad (2.6)$$

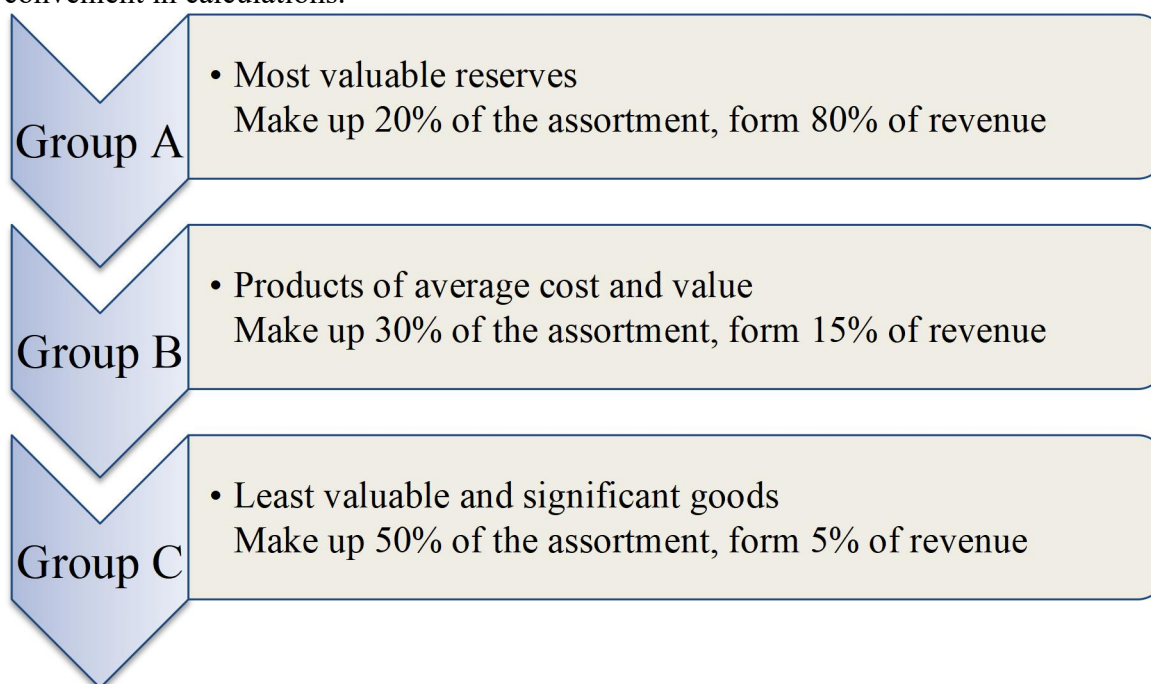
Where Oz is the planned amount of inventory

Vp – production volume in the planning period

Vb – production volume in the base period

The essence of the technique is to plan the amount of inventory in proportion to the increase or decrease in production volume. However, this method is not accurate, since it does not take into account the influence of many other factors on the amount of required reserves.

3. The ABC method is based on grouping inventories into categories, depending on their significance. Category A contains the most significant reserves, category B contains reserves of medium importance, category C contains the least significant. This method is quite simple and convenient in calculations.



Pic. 3. Methodology for grouping inventories using the ABC method

The disadvantage of the ABC method is the possibility of grouping inventories by only one characteristic and the lack of consideration of seasonal fluctuations in inventories.

4. EOQ model (Wilson formula). The model makes it possible to calculate the optimal volume of inventory, at which the volume of costs for ordering, delivery and storage of inventory is the minimum possible. The popularity of this model is explained by its simplicity and accuracy of calculations. However, this model also has disadvantages related to the fact that the model does not take into account possible delays in the shipment and delivery of inventories to the enterprise. The optimal stock size is calculated using the formula:

$$EOQ = \sqrt{\frac{2 \times D \times S \times C}{H}}$$

Where EOQ is the optimal inventory size;

D - required amount of inventory in a given period

S - costs of ordering and delivering inventories

C – cost of purchasing or producing a unit of inventory

H – inventory storage costs

The difficulty of using this model is also associated with the selection of incorrect initial data for calculation. The cost of purchasing and storing inventory is often overestimated, which leads to a distortion of the optimal inventory size.

5. Just-in-time method. An inventory management method in which goods are received from suppliers only when they are needed. The main goal of this method is to reduce inventory holding costs and increase inventory turnover. This model involves the purchase and delivery of only the necessary inventory, therefore, less working capital is required to finance working capital.

Despite the significant savings, this method has a number of disadvantages:

- the model depends on the timely delivery of raw materials and supplies by suppliers, which is difficult to ensure;
- in case of emergency delivery situations, production may stop due to lack of supplies.

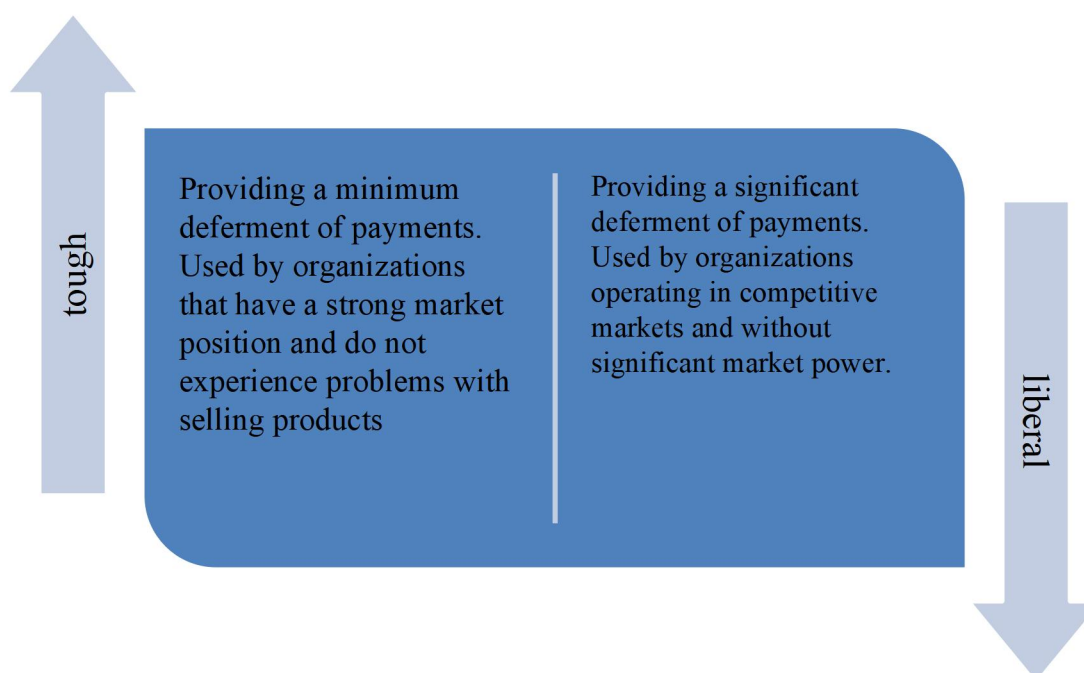
The process of working capital management when forming an operating strategy also includes managing the company's receivables. Managerial impact on accounts receivable is associated with the need to maintain its optimal size. Accounts receivable management is carried out by monitoring the timeliness of payment by counterparties, monitoring their financial condition in order to avoid shipping products to insolvent enterprises, and creating optimal conditions for the payment of debts by debtors.

An increase in the amount of accounts receivable contributes to a slight increase in the liquidity of the enterprise's assets, but negatively affects the financial result. Therefore, the goal of management is to find the optimal amount of accounts receivable, which will provide a compromise between the profitability of the enterprise and the risk of loss of solvency.

Analyses.

Traditionally, the most popular methods for optimizing the size of accounts receivable in the management of enterprises are: development of credit policy, cluster analysis, life cycle theory, factoring.

1. Development of a credit policy, which includes certain measures and rules for the provision of commercial loans by an organization to its counterparties. Credit policy can be of two types (Fig. 4).



Pic. 4 Types and content of the organization's credit policy

Every credit-policy option carries trade-offs.

Tight (conservative) policy. The chief benefit is a sharply lower chance of late or missed payments. The downside is the potential loss of customers who refuse to buy without even a brief grace period.

Liberal policy. By offering generous payment terms, the firm becomes more attractive to buyers

and can lift sales, yet it takes on higher default risk and must cover the extra cost of managing a larger receivables portfolio.

To refine collection tactics, managers can apply **cluster analysis** to the “unreliability coefficient,” grouping debtors into “reliable,” “sporadic,” and “high-risk” categories and tailoring actions to each cluster to keep receivables at an optimal level.

The **life-cycle approach** links credit policy to the firm’s stage of development. During birth and growth, the company typically adopts liberal terms to win a foothold, so receivables swell. At maturity it usually tightens credit, shrinking receivables and safeguarding liquidity. In decline, receivables often rise again, prompting strategies such as selling those claims. Timely shifts in policy help avert cash-flow strains and potential insolvency.

Factoring offers another lever: by selling receivables to a specialist (most often a bank) at a discount, the firm converts them to cash immediately while the factor assumes collection duties and risk. The result is faster working-capital turnover, a shorter operating cycle, improved liquidity, and—frequently—higher sales.

Taken together, these methods each present distinct advantages and drawbacks; choosing the right mix depends on the firm’s objectives, risk tolerance, and operating context.

Table 1
Advantages and disadvantages of accounts receivable management methods

Method	Advantages	Flaws
Credit policy	Monitoring the status and size of receivables, their timely repayment	Risk of error when choosing a credit policy that does not reflect the characteristics of the enterprise
Cluster analysis	Distribution of debtors into groups depending on their solvency	Risk of errors in distribution, change in the solvency of debtors
Life cycle theory	The ability to choose the right credit policy, minimize crisis situations in the enterprise	Risk of incorrectly defining the stages of the enterprise life cycle
Factoring	Increasing profits and increasing asset turnover	Not always applicable due to the high cost of services of the factor bank to which claims for collection of receivables are assigned.

The choice of methods for managing accounts receivable depends on the characteristics of the enterprise's production activities, market capacity, profitability of sales, and the strategy for further development of the enterprise.

It should be taken into account that the working capital of an enterprise can be in all of the above forms during one analyzed period simultaneously, but in parallel, and not sequentially, that is, the arithmetic summation of the duration of each form is not correct. To determine the average duration of stay of working capital in various forms in the analyzed period, in our opinion, a calculation should be carried out in the form of an arithmetic average weighted value, based on the duration of stay of working capital separately for each form, taking into account the share of each element in their total cost

1. Analysis of the composition and structure of working production assets. The analysis includes the study of all categories of working capital assets: inventories, accounts receivable, cash. It is proposed to analyze the composition and structure of inventories using the following methods: direct counting method, analytical method, ABC method.

It is recommended to analyze the composition and structure of receivables using credit policy analysis or cluster analysis.

2. Assessing the efficiency of using working capital in the production process. Conducting an analysis of the efficiency of working production assets (calculation of the inventory turnover index and receivables, solvency and financial stability indicators) and comparing them with average values for the industry. This allows you to identify potential problems and opportunities to improve the use of working capital.

3. Assessment of risks associated with working production assets. Risks may include inventory shortages, late deliveries, non-payment of receivables, and solvency risk, which may affect the financial stability of the organization due to the organization's inability to meet its payment obligations.

4. Determination of optimal levels of working production assets. Based on the analysis and risk assessment, the optimal levels of inventories, accounts receivable and cash are determined to ensure the continuity of production and the solvency of the organization.

5. Development of a strategy for managing working production assets. Based on the calculated optimal levels, strategies are developed for the effective management of inventories, receivables and cash. The strategy may include measures to reduce inventory, improve accounts receivable management processes and optimize cash management policies.

6. Monitoring and control. The implementation of strategies for managing working capital assets must be accompanied by constant monitoring and control. This allows you to identify deviations from optimal levels and, if necessary, adjust the strategy.

The methodology for managing working capital assets, based on a detailed analysis of working capital taking into account risks and assessing the level of solvency, helps the organization optimize the use of its working capital and ensure the stability and sustainability of its financial position.

Thus, the operational strategy of an enterprise largely depends on the methods of managing the enterprise's working capital, since it is the correctness of the strategy for using fixed assets that is designed to balance the risks of loss of profitability and loss of solvency.

When managing working capital of an enterprise, the following contradiction occurs: maximum efficiency in managing current assets is achieved at the maximum level of risk and minimizing indicators of operational reliability (solvency).

Due to the need to find a compromise between efficiency and reliability in working capital management, the author reviewed several methods for inventory management and accounts receivable management, each of which has its own advantages and disadvantages. The choice of methodology should be made depending on the characteristics of the enterprise's production activities, its marketing and sales policies.

The choice of methods for managing accounts receivable depends on the characteristics of the enterprise's production activities, market capacity, profitability of sales, and the strategy for further development of the enterprise.

Due to the importance of calculating working capital, the author proposes a method for calculating the average duration of working capital in different forms, which takes into account a greater number of factors and, as a result, is more accurate than traditional methods.

Discussion. Summarizing the methods for developing an operational strategy for cotton-textile clusters, the following conclusions can be drawn. Light industry enterprises form the basis of textile clusters in many countries, and the efficiency of their activities is increased due to the guaranteed availability of raw materials within the cluster and due to economies of scale.

Since the textile cluster includes enterprises of different sizes, technical equipment and other parameters, the issue of developing an operational strategy for them is of paramount importance.

We have developed a methodology for developing an operational strategy, consisting of an initial assessment of data from all aspects of the enterprise's activities: analysis of production capacity, social and personnel aspects of activity, financial indicators, organization of sales and promotion.

Based on the results of such a multidimensional analysis, “bottlenecks” in the management of the enterprise are identified and management decisions are made to eliminate them.

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