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Michalski G.: Operational risk in current assets investment decisions: Portfolio management approach in accounts receivable

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The basic financial purpose of an enterprise is maximization of its value. Trade credit management should also contribute to the realization of this fundamental aim. Many of the current asset management models that are found

in the financial management literature assume book profit maximization as the basic financial purpose. These book profit-based models could be lacking in what relates to another aim (i.e., maximization of the enterprise value). The enterprise value maximization strategy is executed with a focus on risk and uncertainty. This article presents the consequences that can result from operating risk that is related to purchasers using payment postponement for goods and/or services. The present article offers a method that uses the portfolio management theory to determine the level of accounts receivable in a firm. An increase in the level of accounts receivables in a firm increases both net working capital and the costs of holding and managing accounts receivables. Both of these decrease the value of the firm, but a liberal policy in accounts receivable coupled with the portfolio management approach could increase the value. Efforts to assign ways to manage these risks were also undertaken; among them, a special attention was paid to adapting the assumptions from the portfolio theory as well as gauging the potential effect on the firm value.

Keywords:
accounts receivable, trade credit management, incremental analysis, value based management, portfolio analysis

[fulltext]