

Working capital policy of newly incorporated firms

Tables

Table 1: Variable Description

Variable	Description	Source/Rationale
Current assets (CA)	$(\text{Current Assets})/(\text{Total Assets})$	(Kasiran et al., 2016)
Cash (CS)	$(\text{Cash and Bank Balance})/(\text{Total Assets})$	(Chen & Kieschnick, 2018)
Inventory (INT)	$\text{Inventories}/(\text{Total Assets})$	(Dbouk et al., 2020; Zeballos et al., 2013)
Receivables (REC)	$\text{Receivables}/(\text{Total Assets})$	(Chod et al., 2019; Grau and Reig, 2018)
Current liabilities (CL)	$(\text{Current Liabilities and Provisions})/(\text{Total Liabilities})$	(Kasiran et al., 2016)
Trade payables (TP)	$(\text{Trade Payables})/(\text{Total Liabilities})$	(Hirsch & Walz, 2019)
Short-term borrowing (STB)	$(\text{Short-term borrowings})/(\text{Total Liabilities})$	(Bhalla, 2014; Myers, 2003)
Other current liabilities (OCL)	$(\text{Other Current Liabilities})/(\text{Total Liabilities})$	(Chen & Kieschnick, 2018)
Current ratio (CR)	$(\text{Current Assets})/(\text{Current Liabilities})$	(Bhalla, 2014; Myers, 2003)
Net working capital (NWC)	$(\text{Net Working Capital})/(\text{Total Assets})$	(Aktas et al., 2015; Chauhan, 2019)

Table 2: Summary characteristics

Panel 2.1: Characteristic of all firms in year 1 and year 10 after incorporation

	Y1					Y10				
	Mean	Med	SD	Min	Max	Mean	Med	SD	Min	Max
S	1799.19	184.90	7936.45	0.10	95902.50	8895.86	1823.40	25509.57	19.60	255925.30
TA	2467.88	419.10	7544.50	0.30	60473.60	9284.27	2009.45	24161.94	50.60	240434.40
S/TA	7.95	0.65	77.61	0.00	985.67	1.17	0.96	1.29	0.06	13.51
FA	0.64	0.70	0.28	0.00	1.00	0.53	0.56	0.24	0.01	1.00
LTD	0.77	0.83	0.25	-1.07	1.00	0.51	0.59	0.32	-1.32	0.96
Profit margin	-604.39	0.15	6460.72	-82100.00	37.17	-17.25	1.48	87.69	-835.07	40.06
Return on Assets	-2.14	0.00	18.94	-158.33	48.27	-0.12	1.74	14.44	-123.52	37.31

Panel 2.2: WCP of all firms in year 1 and year 10 after incorporation

WCP	Variable	Y1					Y10				
		Mean	Med	SD	Min	Max	Mean	Med	SD	Min	Max
WCIP	CA	0.36	0.30	0.28	0.00	1.00	0.47	0.45	0.24	0.00	0.99
	CS	0.07	0.02	0.14	0.00	1.00	0.04	0.01	0.07	0.00	0.41
	INT	0.15	0.09	0.19	0.00	0.92	0.19	0.16	0.15	0.00	0.85
	REC	0.07	0.00	0.12	0.00	0.67	0.22	0.20	0.15	0.00	0.76
WCFP	CL	0.23	0.17	0.25	0.00	2.07	0.49	0.41	0.32	0.04	2.32
	TP*	0.06	0.00	0.15	0.00	1.52	0.17	0.12	0.17	0.00	0.94
	STB*	0.06	0.00	0.13	0.00	0.68	0.19	0.17	0.18	0.00	1.30
	OCL	0.03	0.01	0.09	0.00	0.96	0.03	0.02	0.05	0.00	0.54
OWCP	CR	3.13	1.85	7.22	0.03	84.64	1.20	1.06	1.12	0.05	11.62
	NWC	0.13	0.12	0.30	-1.60	1.00	-0.02	0.03	0.33	-1.89	0.77

* Figures relate to year 3 and year 10 after incorporation.

Table 3: Initial Working Capital Policy

Panel 3.1: All firms

	WCP	WCIP				WCFP			OWCP	
<i>WC variables</i>	<i>CA</i>	<i>CS</i>	<i>INT</i>	<i>REC</i>	<i>CL</i>	<i>TP</i>	<i>STB</i>	<i>OCL</i>	<i>CR</i>	<i>NWC</i>
Mean	0.36	0.07	0.15	0.07	0.23	0.06	0.06	0.03	3.13	0.13
Median	0.30	0.02	0.09	0.00	0.17	0.00	0.00	0.01	1.85	0.12
SD	0.28	0.14	0.19	0.12	0.25	0.15	0.13	0.09	7.22	0.30

Panel 3.2: Industries

G1: Chemicals & chemical products: 24 observations

<i>WC var.</i>	<i>CA</i>	<i>CS</i>	<i>INT</i>	<i>REC</i>	<i>CL</i>	<i>TP</i>	<i>STB</i>	<i>OCL</i>	<i>CR</i>	<i>NWC</i>
Mean	0.39***+++@ @	0.05++	0.17***+@ @	0.06**!	0.21***!^# ,<<<@	0.08***+!!# #@@@	0.05*!	0.01!!^< <@@@	2.06***+ <<@@	0.18***+^@ @@
Median	0.40	0.02	0.11	0.00	0.21	0.00	0.00	0.00	1.92	0.18
SD	0.29	0.10	0.21	0.10	0.15	0.11	0.12	0.01	1.51	0.21

G2: Food & agro based products: 17 observations

Mean	0.48##'<<@ @@	0.06##	0.21'@@	0.02^## <<<@	0.43##',<<	0.02^@@@	0.14#''< <	0.12^##'< @	2.35<<@ @	0.06
Median	0.47	0.02	0.20	0.00	0.27	0.00	0.00	0.01	2.35	0.20
SD	0.28	0.08	0.25	0.04	0.51	0.04	0.23	0.25	1.80	0.49

G3: Machinery: 19 observations

Mean	0.39#@@	0.11	0.14@	0.08	0.33###''< <<	0.08#<<	0.07'<	0.02	5.89	0.06<<
Median	0.38	0.04	0.11	0.00	0.30	0.00	0.00	0.00	1.22	0.07
SD	0.26	0.22	0.14	0.16	0.27	0.17	0.12	0.03	19.12	0.33

G4: Metal & metal products: 24 observations

Mean	0.28	0.02'<@ @@	0.15@	0.07	0.15@@@	0.02@@@	0.04	0.01@	2.23<<@ @	0.13@@@
Median	0.18	0.02	0.09	0.00	0.12	0.00	0.00	0.00	2.17	0.10
SD	0.27	0.02	0.18	0.12	0.13	0.05	0.08	0.03	1.98	0.25

G5: Textile: 28 observations

Mean	0.32@	0.07	0.13@	0.07	0.11@@@	0.01@@@	0.02	0.02	4.43@@ @	0.21@@@
Median	0.32	0.02	0.13	0.05	0.08	0.00	0.00	0.01	2.88	0.21

SD	0.26	0.19	0.12	0.09	0.11	0.05	0.07	0.04	4.96	0.21
G6: Transport equipment: 24 observations										
Mean	0.23	0.07	0.08	0.06	0.29	0.003	0.00	0.02	1.16	-0.05
Median	0.18	0.04	0.05	0.00	0.31	0.00	0.00	0.01	0.66	-0.06
SD	0.22	0.08	0.12	0.12	0.17	0.013	0.00	0.02	1.41	0.26

Panel 3.3: Initial size of the company

G1: Smallest companies: 41 observations

Mean	0.43**+!	0.10++	0.16	0.01***+++!!!	0.29*!!	0.08	0.03+	0.04	2.37	0.14
Median	0.41	0.02	0.07	0.00	0.19	0.00	0.00	0.00	1.75	0.15
SD	0.33	0.19	0.23	0.03	0.37	0.25	0.12	0.15	2.49	0.39

G2: Largest companies: 40 observations

Mean	0.34	0.07	0.15	0.09	0.19	0.06	0.06	0.03	3.08	0.16
Median	0.30	0.03	0.11	0.05	0.16	0.00	0.00	0.01	2.14	0.14
SD	0.25	0.09	0.17	0.12	0.13	0.09	0.11	0.09	3.87	0.27

For t-tests, groups in each panel are compared in order of adjacent group and indicate significance in the cells of first group of comparison. The results are indicated by *, **, *** for comparison between all previous groups and second group, with +, ++, +++ for comparison between all previous groups and third group, with !, !!, !!! for comparison between all previous groups and fourth group, with ^, ^^, ^^ for comparison between all previous groups and fifth group, with #, ##, ### for comparison between all previous groups and sixth group, with ', ", "" for comparison between all previous groups and seventh group, with <, <<, <<< for comparison between all previous groups and eighth group and with @, @@, @@@ for comparison between all previous groups and ninth group indicating 10%, 5% and 1% significance level, respectively.

Table 4: Evolution of Working Capital Policy

Panel 4.1: CA

	G1	G2	G3	G4
Y1	0.04(0.03)***+++!!!	0.21(0.06)^^^###	0.41(0.06)'''	0.77(0.12)
Y5	0.33(0.17)+++!!!	0.32(0.18)^^^###	0.49(0.19)'''	0.70(0.20)
Y10	0.36(0.21)+++!!!	0.33(0.19)^^^###	0.53(0.17)'''	0.66(0.22)

Panel 4.2: CL

Y1	0.04(0.02)***+++!!!	0.12(0.03)^^^###	0.23(0.04)'''	0.53(0.33)
Y5	0.34(0.19)*+++!!!	0.40(0.20)###	0.45(0.20)'	0.52(0.24)
Y10	0.43(0.37)!!	0.48(0.31)	0.48(0.19)'	0.57(0.35)

Panel 4.3: CR

Y1	0.34(0.19)***+++!!!	1.28(0.39)^^^###	2.45(0.36)'''	8.57(13.13)
Y5	1.02(0.66)+++!!!	1.13(0.70)^##	1.40(0.82)'	1.92(1.99)
Y10	0.91(0.50)**++!!	1.17(0.57)	1.29(1.15)	1.45(1.77)

Panel 4.4: NWC

Y1	(0.21)(0.26)***+++!!!	0.03(0.05)^^^###	0.21(0.04)'''	0.50(0.18)
Y5	(0.06)(0.20)+++!!!	(0.03)(0.13)###	0.01(0.18)'''	0.21(0.24)
Y10	(0.06)(0.28)!!!	(0.12)(0.38)###	(0.06)(0.32)'''	0.16(0.26)

For each year; mean, standard deviation (in parenthesis) and results of t-tests between four groups are indicated by *, **, *** for comparison between G1 and G2, with +, ++, +++ for comparison between G1 and G3, with !, !!, !!! for comparison between G1 and G4, with ^, ^^, ^^^ for comparison between G2 and G3, with #, ##, ### for comparison between G2 and G4, with ', ", ''' for comparison between G3 and G4, indicating the 10%, 5% and 1% significance level, respectively in cell of first of the two group

Table 5: Impact of initial WCP on subsequent WCP: cross section analysis

WCP Independent variables	Endogenous variables								
	CA	CS	INT	REC	CL	TP	STB	OCL	OWCP CR
C	83.569 (240.9038)	8.463 (3.2614)*	0.4218 (1.0923)	1.0489 (1.3571)	182.5321 (258.7111)	0.2795 (2.2399)	2.1009 (3.3034)	-0.7633 (2.119)	7.9366 (3.7818)*
WCP Var.	-74.7096 (240.9318)	-10.0979 (4.3525)*	-2.4835 (0.8758)**	-4.2024 (1.1572)**	-189.4458 (258.7637)	-3.1989 (1.4222)*	-7.9377 (2.4805)**	-6.6592 (4.4612)	-0.0159 (0.0631)
Y1	-0.0011 (0.0106)	0.1647 (0.4362)	-0.0337 (0.1162)	-0.1458 (0.1326)	0.3858 (0.0959)**	-0.0491 (0.1919)	0.0483 (0.3504)	-0.0133 (0.1571)	0.0012 (0.0057)
S/TA	-55.8939 (241.1711)	1.335 (2.2335)	0.4253 (0.6609)	0.2957 (0.8513)	1.7257 (2.828)	-1.7558 (1.1329)	-1.4932 (1.5882)	0.5281 (1.6273)	7.3704 (1.9736)**
FA	-1.7486 (3.6541)	-3.0248 (1.9332)	0.4783 (0.5828)	-0.8907 (0.6956)	-180.937 (258.687)	0.0958 (1.1516)	-1.726 (1.8521)	-0.9571 (1.3418)	-4.5587 (2.0963)*
LTD	-2.9692 (0.9868)**	-0.4876 (0.5177)	-0.1318 (0.1376)	0.0473 (0.1869)	0.1941 (0.8251)	0.1792 (0.3138)	0.8533 (0.3611)*	-0.0026 (0.3647)	-1.1274 (0.5311)
TA									
Industry Effect	Yes	Yes	No	No	No	No	Yes	No	Yes
R ² / Adj. R ²	0.284 / 0.1814	0.2607/ 0.1322	0.2469/ 0.1346	0.2463/0.1238		0.2917/ 0.1891	0.2258/ 0.0322	0.3321/ 0.2085	0.1694/ - --
F – Stat	2.7622**	2.0281*	2.1975**	2.0101*	2.8420**	1.1663	2.6854**	0.867	2.3403**
D-W Statistic	1.9362	1.758	1.7221	1.9827	1.835	2.1292	2.1356	2.1051	2.0603
VIF	4.331	4.761	5.125	5.086	5.475	6.742	4.835	6.505	5.299
Observations	160	136	155	144	159	101	129	106	162

Coefficients and standard errors (in parenthesis) are reported. The 10%, 5% and 1% significance level is indicated by *, **, *** respectively.

Table 6: Impact of initial WCP on subsequent WCP: panel analysis

WCP Independent variables	WCIP					WCFP		OWCP	
	CA	CS	INT	REC	CL	TP	STB	OCL	CR
C	0.9985 (0.002)**	0.0199 (0.0109)***	0.2152 (0.0312)	0.2000 (0.0281)**	0.9997 (0.0033)**	0.1590 (0.0290)**	0.1421 (0.0351)**	0.0423 (0.0134)**	1.1515 (-0.5985)
Lag 1 of End. Var.	-0.0007 (0.0007)	0.4591 (0.0797)**	0.5612 (0.0406)**	0.5446 (0.032)**	-0.0015 (0.0012)	0.5489 (0.0386)**	0.5038 (0.0358)**	0.3193 (0.1016)**	0.1317 (-0.0931)
Lag 2 of End. Var.	0.0005 (0.0036)	0.1882 (0.2465)*	0.2904 (0.0207)**	0.1642 (0.0122)*	-0.0021 (0.0033)	0.1074 (0.0738)**	0.2361 (0.0672)*	0.2361 (0.1923)*	0.2113 (0.1807)
S/TA	0.0000 (0.0000)	0.0010 (0.0000)**	-0.0004 (0.0000)**	-0.0003 (0.0000)**	0.0000 (0.0000)	-0.0001 (0.0000)**	0.0001 (0.0000)***	0.0000 (0.0000)	0.0022 (0.0011)
FA	-0.9995 (0.0005)	-0.0597 (0.0142)**	-0.2607 (0.0262)**	-0.2147 (0.0252)**	0.0006 (0.0009)	0.0023 (0.0188)	-0.0409 (0.0176)*	0.0166 (0.0076)*	-3.8001 (0.8062)
LTD	0.001 (0.0011)**	0.0369 (0.0106)**	0.0339 (0.0156)*	-0.072 (0.0199)**	-0.9985 (0.0012)**	-0.2233 (0.0336)**	-0.2212 (0.0359)**	-0.0398 (0.0117)**	4.8983 (0.7124)
TA	0.0002 (0.0004)	0.004 (0.0029)	-0.0021 (0.0052)	0.0139 (0.0052)**	-0.0001 (0.0007)	0.0092 (0.0046)*	0.0253 (0.0062)**	-0.0035 (0.0021)	-0.1466 (0.0998)
Sargan Test (p- value)	0.4062	0.5403	0.6769	0.8334	0.1686	0.4311	0.1132	0.176	0.5871
Wald – χ^2	204.5612	201.561	77.5723	204.8321	421.6338	632.6231	201.6341	206.1235	34.3215
AR (1) p-value	0	0.0012	0.0005	0.0034	0.0003	0.0015	0.0003	0.0002	0.0031
AR (2) p-value	0.2603	0.1536	0.1266	0.2345	0.2532	0.3602	0.5423	0.3561	0.3815

Coefficients and standard errors (in parenthesis) are reported. The 10%, 5% and 1% significance level is indicated by *, **, *** respectively.

Table 7: Sigma convergence – Variance

Variable	Variance in year 1	Variance in year 10	Wald Statistic	Interpretation
CA	0.081	0.057	4.454	Sigma Convergence
CS	0.019	0.005	43.269	Sigma Convergence
INT	0.035	0.023	6.447	Sigma Divergence
REC	0.016	0.024	6.992	Sigma Divergence
CL	0.061	0.101	9.13	Sigma Divergence
TP	0.000	0.027	81.5	Sigma Divergence
STB	0.000	0.034	81.5	Sigma Divergence
OCL	0.008	0.002	35.345	Sigma Convergence
CR	52.192	1.258	77.573	Sigma Convergence
NWC	0.092	0.108	1.012	Not Significant

Table 8: Impact of initial WCP on firm's growth: descriptive analysis

Panel 8.1: CR

Growth 1-10	G1	G2	G3	G4
S	0.51(0.49)++!!!	0.39(0.34)^##	0.29(0.38)	0.27(0.28)
TA	0.24(0.20)++	0.26(0.21)^^	0.17(0.17)'	0.27(0.36)

Panel 8.2: NWC

Growth 1-10	G1	G2	G3	G4
S	0.52(0.49)+++!!!	0.52(0.40)^^^###	0.19(0.22)	0.23(0.25)
TA	0.23(0.20)+	0.24(0.20)^	0.17(0.18)"	0.29(0.36)

Panel 8.3: CA

Growth 1-10	G1	G2	G3	G4
S	0.56(0.50)**+++!!!	0.39(0.35)^^##	0.28(0.34)	0.26(0.27)
TA	0.23(0.18)+!	0.21(0.20)##	0.18(0.17)"	0.32(0.37)

Panel 8.4: CL

Growth 1-10	G1	G2	G3	G4
S	0.45(0.40)**++	0.28(0.28)##	0.28(0.42)"	0.45(0.43)
TA	0.28(0.35)**++	0.17(0.14)###	0.17(0.15)'"	0.31(0.25)

Mean and standard deviation (in parenthesis) are reported. Results of t-tests between groups and significance level indicated in line with Table 4.

Figure 1: Probable WCP of newly incorporated firms

