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Improving The Standardization Of Working Capital in Service Enterprises

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Abstract

This article examines the concept of working capital standardization, identifies the objects of standardization and the sources of their formation, and substantiates the feasibility of item-by-item (element-based) standardization of working capital in private sector enterprises under market conditions. The study also justifies the necessity of the widespread use of working capital standards in the planning and lending processes of service sector enterprises.

Keywords: Working capital, working capital standardization, itemized standardization, service sector, banking, lending.

Introduction

In the context of ongoing improvements in enterprise operations, it should be noted that working capital had previously not been subject to standardization, despite the fact that the issue of working capital standardization has consistently attracted heightened scholarly and practical attention, particularly in relation to the specific nature of enterprise activities. Moreover, according to certain economists, owing to the peculiarities inherent in the financial organization of the private sector, working capital was not considered appropriate for standardization. However, under current conditions, this issue necessitates a reconsideration in favor of standardization, primarily due to the increasing significance and expanding role of credit relations.

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The standardization of working capital represents a systematic process of developing economically substantiated norms and standards of working capital required to ensure the uninterrupted and efficient functioning of an enterprise. The establishment of such standards serves multiple essential purposes, including the strengthening of the financial stability of enterprises, the rational and efficient utilization of material and financial resources, and the acceleration of working capital turnover. Furthermore, working capital standards constitute an integral component of financial planning and are extensively employed in the analysis and evaluation of key economic performance indicators of enterprises.

Nevertheless, from our perspective, the process of implementing working capital standardization has simultaneously revealed a number of additional and significant challenges, the resolution of which is imperative to ensure the full effectiveness of its application. In this regard, three fundamental issues warrant particular attention. First, the identification and precise determination of the objects of standardization within the structure of working capital. Second, the appropriate form of representation of the results of standardization, including the nature, quantity, and interrelationships of working capital standards. Third, the development of a comprehensive and methodologically sound framework for the determination and calculation of these standards.

Research Methodology

This study is based on a combination of theoretical and analytical research methods. The methodological framework includes:

- Comparative analysis – to examine different approaches to working capital standardization in the literature;
- System analysis – to identify the structure and interrelations of working capital components;
- Logical generalization – to formulate conclusions and recommendations;

Analytical method – to assess the role of working capital standards in enterprise financial management and lending processes.

The research relies on scientific publications, regulatory documents, and existing economic theories related to working capital management. The study adopts a qualitative approach and focuses on conceptual and methodological aspects of standardization in service sector enterprises.

Literature review

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The importance of properly addressing the issue of standardization is determined not only by immediate practical considerations, but primarily by the necessity of preventing adverse consequences that may arise in the event of improper standardization. In this regard, let us examine several considerations pertaining to this problem.

Thus, the first issue concerns the determination of the object of standardization [1], or, in other words, the clarification of what exactly is subject to standardization: the working capital itself (current assets) or the sources of its formation [2]. Providing clarity on this matter will enable a more accurate and theoretically grounded approach to the analysis of subsequent issues.

In the existing literature, including educational sources, it is most commonly asserted that it is the enterprise's own working capital that is subject to standardization [3]. However, in the subsequent exposition of the procedures for standardization, many authors proceed to discuss the standardization of current assets [4], rather than their sources, thereby allowing for a conceptual conflation of these notions.

At the same time, there are economists who maintain that it is the sources of the formation of own working capital that should be subject to standardization [5], thereby clearly distinguishing between these concepts.

This viewpoint was articulated most explicitly as early as the mid-1980s. For example, Kh.Ya. Sarv, in addition to presenting his position regarding the standardization of the own working capital fund—that is, its sources—also advanced a number of other arguments concerning the formation of working capital [6]. In particular, he argued that there is no necessity for item-by-item standardization of working capital; that this method of establishing standards has proven ineffective, as it led to a reduction in the share of the own working capital fund within the total structure of sources; and that, for the purposes of managing working capital, a consolidated (aggregate) standard is sufficient.

It should be noted that arguments concerning the inexpediency of item-by-item standardization of working capital had been expressed even earlier. Indeed, certain regulatory documents contained provisions indicating that the aggregate standard should serve as the foundational basis for enterprise lending. This was of considerable importance, as the state of relations between enterprises and banks largely depended on the

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correct resolution of this issue. This was particularly significant for enterprises operating in the service sector, whose relations with financial institutions were not always previously based on market principles. It is precisely for this reason, in our view, that this provision found its reflection in legislative acts.

At the same time, the question of how this aggregate standard should be determined, and whether item-by-item standardization is required for this purpose, was not addressed in the relevant regulatory and methodological documents. Consequently, it would be methodologically incorrect to conclude, on this basis alone, that the necessity for item-by-item standardization of working capital has been eliminated.

In our opinion, other arguments advanced in this regard also require more rigorous and substantiated justification. This applies, first and foremost, to the argument against item-by-item standardization of working capital, which allegedly failed to prevent a decline in the share of the own working capital fund within the overall structure of sources of working capital formation.

The issue of the legitimacy of standardizing the own working capital fund as a source of working capital warrants more detailed consideration, as it represents a matter of fundamental theoretical and practical significance.

Analysis and results

The analysis of the issue demonstrates that, up to the present time, the own working capital fund has not been subject to standardization. This was not deemed necessary, as its magnitude is determined depending on the established standard of working capital. Its economic purpose lies in serving as an internal source of working capital and covering the minimum required need for it. Such a minimum requirement for working capital, sufficient to ensure the functioning of an enterprise, is precisely what is established through the process of standardization. This reflects a profound economic rationale, namely that under such financial provision of formed current assets, own financial resources remain in continuous circulation, thereby being utilized in the most efficient manner. Under alternative forms of financial provision, resources may either prove insufficient or remain temporarily idle during certain periods, thus not participating in circulation. The optimal volume of resources can only be

ISSN: 3071-1746 Volume 01, Issue 03, April, 2026

determined on the basis of working capital standardization. However, this does not imply that the own working capital fund itself is subject to standardization; rather, it is determined on the basis and within the limits of the working capital standard.

Practical experience also confirms this conclusion. It is well known that there exist economic entities that have entirely lost their own working capital fund or are not fully provided with it. Nevertheless, this does not imply that such entities lack working capital at the normative level. As a rule, even those enterprises that do not possess their own sources are provided with working capital at a level not lower than the established standard. The difference lies in the fact that, under such conditions, the size of the own working capital fund varies significantly across enterprises and often deviates substantially from the norm established through standardization.

Consequently, it is not the own sources of working capital formation (the own working capital fund) that are subject to standardization, but rather the working capital itself. The own sources merely cover that portion of working capital which is determined through standardization.

The next issue concerns whether element-by-element standardization of working capital is necessary at all, or whether it is sufficient to rely solely on an aggregate standard.

In our opinion, the assertion that element-by-element standardization of working capital has lost its relevance is erroneous. Despite the importance of working capital standards as a foundational basis for lending, their function is not limited to this role. Their scope is significantly broader. First and foremost, they perform analytical, control, and accounting functions. Working capital standards are widely used in planning processes (not limited to financial planning), material and technical supply, and other areas. Overall, they constitute one of the most important elements in the organization and management of working capital. Among all these functions, a substantial share pertains to partial (specific) standards, which are established through element-by-element standardization.

At present, management authorities express concern over the rapid growth of inventories, which complicates material supply and generates artificial shortages. In this context, the question arises as to how such inventories can be effectively controlled and how measures for their

ISSN: 3071-1746 Volume 01, Issue 03, April, 2026

reduction can be developed in the absence of a normative framework, an essential component of which is constituted by partial standards.

The practical need of production for partial working capital standards has not diminished. On the contrary, in the future, with the broader application of normative planning methods in enterprises, the demand for such standards is expected to increase.

It is well known that in the majority of service-sector enterprises there has been a reduction in the own working capital fund; some enterprises have entirely lost it and form their working capital exclusively at the expense of commercial credit. This situation has been widely discussed in the literature, the main causes have been identified, and appropriate measures have already been taken. However, according to the logic of certain authors, it follows that, had there been no item-by-item standardization, trading enterprises would not have lost their own working capital to such an extent. In our view, the relationship is inverse: in the absence of item-by-item standardization, and consequently partial standards, the situation might have been even worse.

From our perspective, the functions of both item-by-item standardization and working capital standardization in general are not entirely correctly interpreted in such arguments. Standards constitute an integral component of the financial mechanism, but they are not so dominant as to attribute the deterioration of the financial condition of enterprises solely to them. Working capital standards, like other types of standards, function primarily as indicators of the state of economic processes and phenomena, and their main purpose is to objectively signal emerging deviations. It is in this capacity that their active role is manifested. To attribute additional functions to them would mean to unjustifiably exaggerate their capabilities. Therefore, the argument that element-by-element standardization has become obsolete because it failed to prevent the deterioration of enterprises' financial conditions is unconvincing, and we do not share such views.

Let us now turn to the question of what exactly is subject to standardization. A.I. Lupey asserts that it is the own working capital that is standardized, and that this is done on an element-by-element basis. In our opinion, this does not correspond to reality, neither with respect to element-by-element standardization nor with regard to the own working capital fund. The own working capital fund, as a source, is unified; it

ISSN: 3071-1746 Volume 01, Issue 03, April, 2026

represents a portion of an indivisible fund used for the formation of working capital. Naturally, its element-by-element standardization is not feasible; therefore, the use of such a formulation appears, in our view, methodologically incorrect.

This reflects the practical aspect of the issue. However, to date, there is no established methodological approach that would allow for the development of aggregate standards without relying on partial ones, nor is it clear to what extent such standards would be reliable, i.e., consistent with the fundamental principle of standardization - the minimization of indicators.

At present, sufficiently substantiated proposals in this regard are lacking. There have been attempts to establish such standards per 100 units of gross output, per 100 units of marketable output, and even per 100 hectares of agricultural land. However, these approaches have not found practical application, either because they were still ultimately based on element-by-element calculations—thereby complicating the process - or because they were excessively probabilistic in nature. Thus, the idea of an aggregate standard has not gained practical recognition, not due to external opposition, but rather because it remains methodologically underdeveloped in the context of modern economic conditions.

In this regard, the question arises as to whether it is methodologically justified to pose the problem of calculating the standard by direct methods without element-by-element standardization, and whether such a standard can be sufficiently well-founded.

The answer to this question should be unequivocal and affirmative, but not in the manner it is commonly interpreted. Specifically, it may be appropriate to develop aggregate working capital standards not for the purposes of lending and the direct organization of working capital at the enterprise level, but rather for more accurate calculations of financial indicators.

For such purposes, element-by-element standardization is less practical, whereas aggregate standards are more appropriate, requiring fundamentally different methodological approaches for their determination. These standards differ from those applied in current planning and lending at the enterprise level, primarily in terms of their degree of precision. They are inherently more probabilistic; however, given their primary purpose, this limitation can be considered insignificant.

ISSN: 3071-1746 Volume 01, Issue 03, April, 2026

This consideration, in our opinion, must be taken into account when discussing working capital standards. Accordingly, the existence of multiple types of working capital standards is justified, rather than relying solely on a single aggregate standard, as each of them performs specific functions. Therefore, the scope of application and purpose of each type of standard should be more clearly defined, and a corresponding methodology for their calculation should be developed. In such a case, there would be no need to oppose one type of standard to another or to argue for the superiority of aggregate standards while denying the necessity of partial ones, since the role and function of each standard would become evident.

For example, the aggregate working capital standard used for macro-level estimations is determined analytically. Some economists, without taking into account the specific nature of this type of standard, propose applying the same approach to determine aggregate standards for lending and financing purposes. In our view, such proposals would not arise if the purpose of each type of standard were more clearly defined.

It is evident that an aggregate standard for current forecasting and lending cannot be reliably established without element-by-element calculation. By determining partial standards, we simultaneously establish the minimum necessary amount for each specific type of working capital, without which neither turnover nor the production process can proceed uninterrupted. Therefore, it is precisely this specific type of working capital, rather than any other, that must be continuously maintained in a defined quantity. By summing all such minimum values, a well-founded aggregate standard is obtained. This approach is currently applied in practice, ensuring methodological consistency between element-by-element standardization and the aggregate standard. If the aggregate standard were determined by other methods, this consistency would be disrupted, and it would no longer accurately reflect the overall minimum requirement for working capital.

Conclusions and final remarks

From the foregoing analysis, it can be concluded that partial (specific) standards, no less than aggregate standards, possess an independent theoretical and practical significance and, therefore, should not be opposed to one another. Moreover, in our view, the role of partial standards is likely to increase in the future, accompanied by an expansion

ISSN: 3071-1746 Volume 01, Issue 03, April, 2026

of their scope of application. At the same time, this will not diminish the importance of aggregate working capital standards. In this context, it is advisable to more clearly differentiate between aggregate standards used for long-term forecasting purposes and those applied in current operational activities related to the organization of working capital and interactions with commercial banks.

A number of economists, including Kh.Ya. Sarv, identify the excessive labor intensity of the element-by-element method of working capital standardization as one of the principal arguments against its applicability. This argument cannot be entirely dismissed, although, in many cases, the extent of such labor intensity tends to be overstated. Nevertheless, in our opinion, this factor alone does not constitute a sufficiently strong justification for abandoning element-by-element standardization where there is a clear production or operational necessity for its application.

In such circumstances, it would be more appropriate not to reject element-by-element standardization, but rather to pursue its further improvement. This may involve efforts aimed at significantly reducing its labor intensity or, where this is not feasible, introducing the computerization and digitalization of the standardization process. It should be noted that the academic and professional literature has already advanced a number of noteworthy proposals in this regard, both in terms of preserving the methodological rigor of working capital standardization and in promoting the application of information technologies.

Accordingly, there are no sufficient grounds to assert that element-by-element standardization of working capital has become obsolete. On the contrary, it can be argued that it is only at the initial stage of its development and is progressively moving toward a trajectory of sustainable advancement.

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ISSN: 3071-1746 Volume 01, Issue 03, April, 2026

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