THE IMPACT OF WORKING CAPITAL MANAGEMENT ON CORPORATE PERFORMANCE IN NIGERIA

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Abstract

This research is on the impact of working capital management on corporate performance in Nigeria. The aim of this study is to assess the impact of working capital management on corporate performance of quoted chemical and paint firms in Nigeria. The objectives are; to examine the relationship between working capital management on corporate performance of quoted chemical and paint firms; to determine the strength of the relationship between working capital management on corporate performance of quoted chemical and paint firms and; to establish equation for the working capital management and indicators determine corporate performance of quoted chemical and paint firms. The study adopted both the use of primary data from chemical and paint firms. Data were collected using the instrument of questionnaire. Data was analysed using the multiple linear regression. The research revealed that there is statistically significant effect of the Average Collection Period on firm's sales growth in Nigeria. The Inventory Conversion Period has a significant negative effect on sales growth. Average Payment Period does not have a significant impact on sales growth while Cash Conversion Circle has a positive and significant impact on sales growth of the firms. The research is recommended to all Agro-based industries and industrial goods companies both the private and public ownership.

Key words; Capital; management; performance; indicators; firms; corporate.

INTRODUCTION

The place of working capital to an organisation's financing, investing and solvency is critical to its long-run survival and profitability (Arshad & Gondal, 2013). Working capital is the lubricant that sustains any company's operation. It's the funding of business activities on a daily basis which brings about financial value to shareholders. Working capital is the life blood of any existing company which brings about operational vibrancy or continuity of a company. Working capital management includes, inventory management and payable management (Gumber & Kumar, 2012). The smooth operation of a business depends on the value of working capital available at any point in time. It determines two main objectives of corporate investment which are corporate profitability and liquidity. A working capital imbalance affects positively or negatively a firm's profitability or liquidity. To establish a balance between profitability and liquidity requires an effective management of working capital. The judicious use of working capital involves planning, monitoring and controlling in order not to exceed the optimum level to create a balance (Gumbar & Kumar, 2012). A profitability geared working capital will result to insolvency, where all available resources are always reinvested for profit maximization. Such working capital strategy believes in risk acceptance, shareholders wealth maximization and volatile cash fluctuation while a liquidity geared working capital management will have excess tied down in idle cash and cash equivalent that will results to net operating loss and stakeholder wealth depletion and operational deficiency (Oyadongha & Ogiriki, 2018).

STATEMENT OF THE PROBLEM

The pandemic experienced across the nation has contributed to the failures of so many companies. There is the inability of companies to convert goods produced to cash leading to too much inventory, which sometimes become mishandled, deteriorates obsolete, etc. which leads to shortage of funds in the company. Egbide (2009) argued that many business enterprises failed due to inability of managers to judiciously utilized company's capital. It is arguable that such a practices can lead to an unbalanced relationship between corporate profitability and liquidity. The effect of managing working capital for existence of business cannot be overemphasized. It can lead to the growth and survival, as well as, poor profit performance and eventual failure of any company. Excessive working capital should be avoided so as not to incur additional cost which will in turn reduce profitability. Previous studies by (Teruel & Solano 2005, Chakraborty 2008) have argued that poor working capital management had led to corporate failures in companies.

THE AIM AND OBJECTIVES OF THE STUDY

The aim of this study is to assess the impact of working capital management on corporate performance of quoted chemical and paint firms in Nigeria.

Objectives are;

1. To examine the relationship between working capital management on corporate performance of quoted chemical and paint firms
2. To determine significant relationship between the sales of growth firm and corporate performance of quoted chemical and paint firms

3. To determine the strength of the relationship between working capital management on corporate performance of quoted chemical and paint firms

THE CONCEPT OF WORKING CAPITAL

The term “working capital" is that portion of total funding needed for the day to day operation of an entity (Nwude, 2004:627). Adarquah (2013) sees it as short-term resources available to a company for financing its day-to-day activities. On their part, Vallalnathan and Joriye (2012) equally view it as the flow of ready funds necessary for the operation of the firm’s activities. Again Muhammad, Jan and Ullah (2011) see it as a financial metric which represents the amount of day to day operating liquidity available to a business. Richards and Laughlin (1980) discovered that working capital is needed in every step of the process but it changes after certain steps. It is a circulating capital which flows and changes forms as the firm pursues its goal and performs its operations (Nwude, 2004). Also, according to Nwude, (2004) it is a financial lubricant or life stream for a firm and maintain constant process of circulation throughout the firm. A narrow definition for working capital is inventory plus account receivable minus accounts payable. Working capital meets the short term financial requirements of a business enterprise (Loen, 2013). The major concepts of working capital are the gross working capital and the net working capital. Gross working capital is the totality of firms' investment in current assets such as inventory, accounts receivable, short term marketable securities and cash. Net working capital is the totality of firms' investment in current assets less the totality of the firm's current liabilities. Current liabilities include items such as accounts payable, notes payable, accruals, deferred taxes and short- term deposit obligation.

RELATIONSHIP BETWEEN WORKING CAPITAL MANAGEMENT AND PROFITABILITY

Alavinasab and Davoudi (2013) examined the relationship between working capital management and profitability of 147 companies listed on Tehran stock exchange during the period of 2005- 2009. The effect of various variables of working capital management including cash conversion cycle (CCC), the current ratio (CR), current assets to total asset ratio (CATAR), current liabilities to total asset ratio (CLTAR) and debt to total asset ratio (DTAR) on return on assets and return on equity are studied. Mu1tivariate regression and Pearson correlation are used to test hypothesis and the result showed a negative significant relationship exist between CCC and return on assets and there is also a negative significant relation between CCC and return on equity. However, the relationship between current ratio and return on equity is insignificant.

Ajibolade (2013) this study provided empirical evidence on the interaction between working capital management and corporate debt structure, and the effect of this on corporate profitability. The assumption the study was based is that, if internal fund become the preferred source of finance for Investment projects, then working capital composition is interfered, making both decision. Using a two year (2011 and 2012) data set on 35 manufacturing companies listed on the Nigeria stock exchange. Panel exploration and factorial- ANOVA estimation techniques were used to estimate the econometric models. the results suggested a significant negative relationship between firm's working capital composition and their debt structure choice. Additionally, on individual basis, the study found a positive significant relationship between debt structure and capital composition and profitability.

Therefore, it is of great importance to ensure that working capital management enhances continuous operation of company's activities no matter the size, age and nature of operations, to enable a company meet its current and long-term financial obligations. Working capital therefore influences both liquidity and profitability in like manner; a low working capital indicates a weak liquidity and a strong profitability (Almanzari, 2014). Working capital is a trade-off between liquidity and profitability of a company (Smith, 2003). An inadequate amount of working capital impairs liquidity, holding of excess working capital results in reduction of profitability (Ghosh & Maji, 2003). A proper estimation of working capital actually requires a concerted effort and good knowledge of financial management.

Profitability is a concept that helps people to access the viability of a company. Profitability could be measured by a company's return on assets, capital employed, operating profits and retained earnings. Most activities of an organization have a firsthand effect on profitability, because it is the mirror of every corporate being (Alipour, 2011). This is the reason every corporate organisation will want to manage its activities that have a direct bearing on profitability. Hence, working capital management has become a concept in the literature of working capital management, which is based on selecting the best method to ensure that the profit of a company does not decrease by any means and also the speed of cash circulation increases with a decrease in cost. So, working capital management increases cash flow speed, decreases irrecoverables and decreases cost to create opportunities to maximize profit and corporate wealth. This, according to Alipour (2011) means that working capital has a direct bearing on the profitability of a company.

METHODOLOGY

The study adopted both the use of primary data from chemical and paint firms. Data were collected using the instrument of questionnaire. Data was analysed using the multiple linear regression. The working capital management is the dependent variable and the performance (indicators used are independent variable.

DATA ANALYSIS AND DISCUSSION OF FINDINGS

Hypothesis (H_0): The sales growth of firms is not significantly dependent on leveraging on Average collection period

Table 1: Model Summary of Multiple Regression

Model	Sum of Square	R	R square	F-stat.	Sig.(F-stat.)
S.E of Regression	2.775977	0.692192	0.792809	42.81955	0.0000
Residual	832.2533				
Source: Author's field survey, 2019.					

Table 1 shows that the Regression (R) of the Hypothesis is 0.692192 with a Regression square (R square) of 79.2%. This R Square measures the whole strength of association between dependent variable and independent variables. The 79.2% of the R square is the total variance of the dependent variable explained by the independent variables. This implies the unexplained part of 20.8% is the effect of the other variables impacting on firms' sales growth that is not included in the regression. Also because the F-stat (42.81955) is greater than the Significant value of 0.0000, the null hypothesis is rejected and the alternate hypothesis can be uphold to mean that there is statistically significant relationship between the dependent variable and the independent variables. This also implies that average collection period still has a significant effect on firm's sales growth in Nigeria.

Table 2: Estimation output showing the impact of working capital management on corporate performance in Nigeria

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	2.874475	7.547646	0.380844	0.7041
ACP	0.347240	0.164567	2.110022	0.0350
ICP				

APP	-0.531016	0.253986	-2.090733	0.0389
CCC	-3.672119	7.506479	-0.489193	0.6257
	5.246047	1.486779	3.978663	0.0006

Source: Author's field survey, 2019.

Dependent variable: The sales of growth firm

Independent variables: Average Conversion Period (ACP), Inventory conversion period (ICP), Average Payment Period (APP) and cash conversion cycle (CCC).

Wc=2.874475+0.347240x-0.531016x-3.672119x+5.246047x

Ho1: The sales growth of firms is not significantly dependent on leveraging on Average collection period (ACP).

From 2 above, it is evidence that Average Collection Period (ACP) has a significant impact on sales growth of the studied firms. This is validated by the corresponding probability value of ACP which is 0.0350 is less 5 percent, thus, we conclude that ACP still has a significant effect on sales growth. This assertion is also validated by the corresponding t-statistic value of 2.110022, which is above the margin of 2.

Ho2: The sales growth of firms is not significantly dependent on leveraging inventory conversion period (ICP).

It is evidence from table 2 that the corresponding probability value for the coefficient of ICP which is 0.0389 is less 5 percent level of significance. Thus, ICP has a significant negative effect on sales growth. The absolute value of its corresponding t-value also validates this claim with -2.090733. With this, hypothesis two of this study in its null form (Ho2) is rejected and its alternate accepted.

Ho3: The sales growth of firms is not significantly dependent on leveraging average payment period (APP).

The coefficient of APP is also negative with a value of -3.672119, but it is not significantly different from zero (see corresponding p-value of 0.6257) and the t-statistics value of -0.489193. Since APP does not have a significant impact on sales growth, we accept the third hypothesis stated in its null form (Ho3) and reject its alternate.

Ho4: The sales growth of firms is not significantly dependent on leveraging cash conversion cycle (CCC).

Table 2 above also indicates that cash conversion circle has a positive and significant impact on sales growth of the firms. This can be seen from the positive coefficient of CCC and its corresponding P-value and t-value of 0.0006 and 3.978663 respectively.

CONCLUSION

The impact of working capital management on corporate performance in Nigeria. The research revealed that there is statistically significant effect of the Average Collection Period on firm's sales growth in Nigeria. The Inventory Conversion Period has a significant negative effect on sales growth. Average Payment Period does not have a significant impact on sales growth while Cash Conversion Circle has a positive and significant impact on sales growth of the firms. The research is recommended to all Agro-based industries and industrial goods companies both the private and public ownership.

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