



WORKING CAPITAL MANAGEMENT AND FINANCIAL PERFORMANCE OF LISTED COMMERCIAL BANKS IN NIGERIA

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Abstract

The study examines the effect of working capital management and financial performance of listed commercial banks in Nigeria. Working capital management were measured using four variables namely inventory turnover period, receivable turnover, payable turnover and cash conversion. Secondary data from the financial statements of banks listed at NSE was collected in this regard. Descriptive analysis, correlation analysis and regression analysis were conducted to achieve the objective of the study. Results of descriptive statistics of the main variables revealed that account payable's days by the listed deposit money banks in Nigeria to pay their customers is 62 days while account receivables by the same listed deposit money banks in Nigeria do not extend credit to their customers beyond 58 days. The study found receivable turnover, payable turnover, inventory turnover had positive effects on financial performance of deposit money banks listed at NSE. Cash conversion cycle has an insignificant and inverse relationship on financial performance of deposit money banks listed at NSE. The study recommends that account collection (receivable) days, inventory turnover days as well as account payment (payable) days should be increased to achieve efficient and effective utilization of capital for production benefits as well as realizing maximum return on funds invested by the shareholders.

Keywords: *Working capital management: inventory turnover period, receivable turnover, payable turnover and cash conversion*

INTRODUCTION

Studies on banks' financial performance have attracted great attention in all economies, particularly in the area of business and corporate finance literature.

This is because financial performance is an issue of great concern to shareholders and other corporate stakeholders. Therefore, the need to improve banking institutions in Nigeria became imperative for better profitability of the banking industry (Obienusi 2015). Performance revolves around an organization's output in respect to its objectives and is expressed in terms of profitability and expected behavioural output. Financial performance is regarded the only worthy measure of organizational performance due to its value to the shareholders, management and the market (Fwaya E. 2006). This is because it indicates an organization's success and sustainability through its ability to operate above its costs. This may be more prominent in the banking sector.

Commercial banks are the major financial institutions that play quite an important role in the economic development as well as in saving and investment sectors. Banks are suppliers of finance for trade and industry and play a vital role in the economic and financial life of the country (Joshi R. 2013). They also provide an opportunity in the development of individual industries, trade and business organization by investing savings and collected deposits. By investing the saving and collected deposits in the productive sectors, they help in the formation of capital. Besides, they also render numerous services to customers with a view to providing facilities to their economic and social life in the community (Bieniasz & Gołas 2011). A bank must always have cash balances in hand in order to pay its depositors upon demand or when the amounts credited to them becomes due. It must also keep a proportion of its assets in forms that can readily be converted into cash. Only in this way the confidence in the banking system can be maintained.

Working capital management is factor influencing profit returns of companies worldwide and prioritizes the financial sector, particularly banks. It is widely recognized that corporate organizations' sustainability is primarily based on how they can effectively manage their working capital. Working capital in a company refers to the amounts invested in current assets. If the current debts are deducted, then the net working capital will be obtained. Working capital meets the short-term financial needs of a business enterprise. Working capital as an important part, plays a vital role in a company's management structure. In this regard, working capital and liquidity have been likened to a blood, circulating in the vessels of a business unit and required for the survival of that

unit. Experience has shown that improper working capital management is a major cause of financial distress and bankruptcy in most companies (Teruel & Solano, 2007). Therefore, managers should know how to apply an efficient working capital management policy to guarantee the growth, profitability and long-term success of their companies. As Tauringana and Afrifa (2013) argue, the most important indicators of working capital management are: number of days accounts receivable; number of days accounts payable; number of days inventories and cash conversion cycle.

The cash conversion cycle measures time (in days) that a company takes to convert resource input into cash flows. It is estimated that the lower the time the company to sell inventory, collect cash from the debtors the better for the firm since this makes the firm more liquid to re-invest in more cash generating investment to boost return on investment. Further, the use of cash conversion cycle can be useful in assessing the management efficiency (Deloof, 2003). Cash flow is important to all firm and maximization of inflows while minimizing outflows can increase a firm's profit. Appuhami and Ranjith (2008) provide that one of the most widely used method by firms to measure and evaluates risk and returns associated with liquidity management are cash flow cycles. Through cash flow cycles management industries, managers are able to identify the areas that require further improvement to enhance future cash flow. It also helps to identify short and long run cash inflow and outflows to sort out any cash shortage or excess in order to formulate a comprehensive investment strategy.

Accounts receivables are those customers who have not yet paid for goods or service which the firm has supplied. The accounts receivable is done to reduce the time laps between the time laps between completion of sales and receiving payment. Firms in their bid to be competitive and improve their profitability by reducing the number of days accounts receivables outstanding. Through this, managers can improve profitability by reducing the credit period granted to their customers (Lazaridis & Tryfonidis, 2006). The study by Deloof (2003) suggested that managers can increase corporate profitability by reducing the debtor's management period. The longer the number of days accounts receivables outstanding, the greater the chance that the firm may lose its profitability.

Accounts payable is the management of creditors and represents the average length of time between the purchase of materials and labour and the payment of cash for them. Account payables plays a critical role in managing working capital because delaying bill payments is one of the tools for management to have access to an inexpensive source of financing (Harris, 2005). However, the opportunity cost of keeping high accounts payables may hurt the business if an early payment discount is offered (Lu, 2013). Working capital management rules states that firms should strive to lag their payments to creditors as much as possible, taking care not to spoil their business relationship (Napompech, 2012). Some of the Commercial bank in Nigeria were deemed distressed and doubtful by the CBN as of 2009, reason was liquidity related. Hence, this study examined the impact of working capital management on the financial performance of listed commercial banks in Nigeria.

Review of Related Literature

This chapter entails a review of literature as presented by various authors and scholars based on the objectives of the study. The literature review provides an explanation of theoretical rationale of the problem being studied as well as what research has already been done and how the findings relate to the problem at hand. This is a subjective measure of how well a firm uses assets from its primary mode of business and generates revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance refers to a measure of the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment (ROI), return on assets (ROA), shareholder value, accounting profitability and its components. Return on Assets is a measure of efficiency, it measures how effectively and efficiently a firm utilizes the resources (assets) at its disposal, in revenue generation. Quantitative measures of firm performance include profitability measures such as gross profit margin, net margin for example return on sales return on equity, economic value added, return on equity less cost of equity, return on capital employed; cash flow measures such as free cash flow over sales; and revenue growth. One way of managers controlling the financial affairs of an organization is the use of ratios. Ratios are simply relationships between two

financial balances or financial calculations which establish our references so that we can understand how well an entity is performing financially.

Working Capital Management

Working capital is a term frequently used in the corporate world and is the most significant definition of the lifeline of every corporation. Working capital is calculated by subtracting current assets from current liabilities and refers to cash made available for a company's daily operation. In banks' everyday activities, efficient working capital management arises because too much or too little working capital can create a serious problem in both the short and long terms (Onwumere, Ibe, & Ugbam, 2012). Excessive working capital involves the retention of significant cash reserve that are not used for productivity and profitability. Instead, funds that are meant to be invested are left idle and the bank does not receive any interest. Too little working capital will do greater short-term harm to a bank's results; this is because more of the liquidity has been spent for profit. The primary financial goal is to maximize shareholders' wealth, which ensures excellent financial performance. Large-capital banks will grow as they expend surplus cash on productive undertakings and attractive acquisition prospects while retaining ample liquidity. Banks with comparatively low capital ratios, on the other hand, would have a very passive investment appetite since they need to maintain liquidity adequately and not actively invest finite idle funds in long-term ventures to reduce liquidity risk (Susan & Nasieku, 2016). Deposit money banks with comparatively large resources have the viability factor. Commercial banks must maintain appropriate amount of liquidity at every time as a company that want to continue to be in operation.

Cash Conversion Cycle

Cash conversion cycle or cash cycle is defined as the length of time from the actual outlay of cash for purchases until the collection of receivables resulting from the sale of goods or services (Van Horne & Wachowicz, 2008). The calculation of the cash conversion cycle could be subtracting the firm's payable turnover in days (PTD) from its operating cycle and thus we produce the firm's cash cycle. The gap between short-term inflows and outflows can be filled either by borrowing or by holding a liquidity reserve in the form of cash or marketable

securities. Alternatively, they can be shortened by changing the inventory, receivable, and payable period

It can be calculated thus: $\text{Cash Conversion} = \text{Operating Cycle} - \text{Payable Turnover in Days}$.

Receivables Turnover

Receivable turnover is the accounts receivable period which is the time between sale of inventory and collection of the receivables (Ross, Westerfield & Jordan, 2008). Receivable turnover is very important indicator to show the efficiency of the company in performing its financial activities. The Receivable Turnover (RT) ratio provides insight into the quality of the firm's receivables and how successful the firm is in its collections. This ratio is calculated by dividing receivables into annual net credit sales (Van Horne & Wachowicz, 2008).

Payable Turnover

Accounts Payable Period is defined as the time between receipt of inventory and payment for it (Ross, Westerfield & Jordan, 2008). As Van Horne and Wachowicz (2008) mentioned, that they calculate payable turnover in the same way as to receivable turnover, and according to the study it can be compute as Payable Turnover in Days (PTD) or Average Payable Period as following:

$\text{Days in the year payable turnover} = \text{Accounts payable} \times \text{Days in the year annual credit purchase}$

With an indication for the importance of this number the average payable period is valuable information in evaluating the probability that a credit applicant will pay on time (Van Horne & Wachowicz, 2008). The average payable days outstanding provides an indication of the average time the company takes in paying its obligations to suppliers. The longer the payment period, the greater the use of suppliers' capital (Subramanyam & Wild, 2009).

Inventory Turnover

Inventory period is defined as the time it takes to acquire and sell inventory (Ross, Westerfield & Jordan, 2008). The main reason for calculating the Inventory Turnover (IT) ratio is to help determine how effectively the firm is managing inventory and also to gain an indication of the liquidity of inventory (Van Horne & Wachowicz, 2008).

The amount of inventory the company keeps has in general an effect on its sales and profitability in most companies, a certain level of inventory must be kept. If inventory is inadequate, sales volume declines below an attainable level. Conversely, excessive inventories expose a company to storage costs, insurance, taxes, obsolescence, and physical deterioration. Excessive inventories also tie up funds that can be used more profitably elsewhere. It could be calculated according to the following equation: Days in the year inventory turnover = Inventory x Days in the year cost of goods sold.

Empirical Studies

Yahaya & Bala (2015) is centered on working capital management and the financial performance of deposit money banks from 2007 to 2013, the ordinary least squares (OLS) regression analysis was employed and they found out that liquidity has a substantial impact on the profitability of deposit money banks.

Osuji & Agbada (2020) studied the requirements for productive profitability in the Nigerian banking sector. Specifically, working capital management (WCM) key variables, such as Cash conversion, accounts receivable and payable were employed as substitutes. Data were collated using questionnaires and analyzed with the use of the Pearson product-moment correlation coefficient. Although the values of 'r' revealed signs affirming a direct relation, the power of relationship is on the mean. The importance of (r²) verified this; specifically, the variable 'funds given to clients', which was minimal at 0.2229, indicated that the variable described only at 22.29% variation in profitability. The findings proposed that WCM factors haven't generated adequate cash flows that could maximize income. Therefore, the study recommended that Working Capital Management variables should be effectively monitored to avoid cases that lead to loss of funds.

Theoretical Framework

There are several theories for this study that have derived the working capital management and financial performance. This study however adopted the Trade off Theory to underpin its study because it explains and links all variables used in the study.

Theory of working capital

The trade off theory suggests that firms target an optimal level of liquidity to balance the benefit and cost of holding cash. Liquidity is called a flow principle in economics since a company can fulfill its short-term liabilities, and this is calculated over a period of time. To settle loans and meet internal and external commitments, a company can also turn investments into currency. Liquidity plays a significant role in a bank's activities and a lack of liquidity will create a standard for bank failure. However, profitability refers to a company's capacity to generate income or revenue more significantly than income-generating expenses or expenditure. Profitability is also a company's ability to create a return on investment effectively from the properties it owns. Eljely (2004) adds that firms save transactions costs to raise funds and do not need to liquidate assets to make payments. Moreover, the firm can use liquid assets to finance its activities and investment if other sources of funding are not available or are extremely expensive. In a more evaluative perspective, Eljely (2004) the concern of business owners and managers all over the world is to devise a strategy of managing their day-to-day operations in order to meet their obligations as they fall due and increase profitability and shareholders wealth. The crucial part in managing working capital is required in maintaining its liquidity in day-to-day operation to ensure its smooth running and meets its obligation. A business firm should ensure that it does not suffer from lack of enough liquidity to meet its short term compulsions (Bhunia, 2010) .The dilemma in liquidity management is to achieve the desired tradeoff between liquidity and profitability (Raheman and Nasr, 2007).According to Charitou *et al* (2010), management of current assets and current liabilities is important in creating value for the shareholders. If a firm can minimize its investment tied up in the current assets, the resulting funds can be invested in value creating projects, thereby increasing the firm's growth opportunities and shareholders return. The theory is very relevant for the current study as it underpins the balancing of working capital by not interfering with payment of current debt obligations and not holding too much working capital to maximize profitability and shareholder wealth.

METHODOLOGY

For the purpose of this study, correlational and descriptive research design was adopted to address the research problem. A correlational research design is used to examine the statistical relationship between two or more variables. Correlational research design is therefore considered as the most suitable for this study due to the fact that it allows for testing of relationships between or among variables and making of predictions concerning these relationships.

Population and Sample Size of the Study

The population of the study consists of all twenty-three (23) listed commercial banks operating in Nigeria. However, the study considered only fifteen (15) listed deposit money bank on the Nigeria Stock Exchange as at 31st December 2020. The use of listed commercial banks was justified based on availability of data. The non-listed banking firms are excluded because data needed may not be available

Sources and Methods of Data Collection

In conformity to the stated research objectives, the study employs panel data mainly from secondary sources which are quantitative in nature. The data was obtained from the published annual reports of individual banks. Therefore, the data required are hand collected from the audited annual reports of the selected banks within the study period.

Techniques and Justification of Data Analysis

The technique of data analysis used was multiple regression analysis. The study applied these techniques to examine the impact of working capital (number of days accounts receivable; number of days accounts payable; number of days inventories and cash conversion cycle) on financial performance of listed deposit money banks in Nigeria. Data was analyzed using STATA statistical software and the outcome was used to test the hypotheses of the study after conducting necessary robustness tests with a view to improve the validity of the results.

In view of this, panel data regression analysis would be adopted for the study. A panel data consists of cross-sectional unit (firms) over a same time period (Wooldridge, 2009). As employed by (Flamini, McDonald & Schumacher,

2009), the Feasible Generalized Least Square (FGLS) was applied as an alternative estimator to the Generalized Least Square (GLS) because FGLS basically corrects for any presence of heteroscedasticity in the analysis of the study.

Table 3.1 Description of Variables and their Expected Relationship

| Variables | Measure | Notation | Source |
|------------------------------|--|----------|-------------------------------|
| Dependent variables | | | |
| Return On Asset | Earnings Before Interest and Tax/ total asset of the bank in year t | ROA | (Kazeem 2015) |
| Independent Variables | | | |
| Cash Conversion | Operating Cycle – Payable Turnover in Days | CC | (Van Horne & Wachowicz, 2008) |
| Receivable Turnover | Dividing the accounts receivable turnover ratio into the number of days in a year. | RT | (Van Horne & Wachowicz, 2008) |
| Payable Turnover | Accounts payable x Days in the year annual credit purchase | PT | (Van Horne & Wachowicz, 2008) |
| Inventory Turnover | Inventory x Days in the year cost of goods sold | IT | (Van Horne & Wachowicz, 2008) |

Model Specification

In order to determine the impact of working capital on financial performance on listed deposit money bank in Nigeria. A multiple linear model is established. The model summarizes impact of number of days accounts receivable, number of day's accounts payable, number of days inventories and cash conversion cycle on financial performance. In this study, the working capital factors affecting financial performance of listed Deposit Money Banks in Nigeria was assessed from the data collected.

Model:

$$ROA_{it} = \beta_0 + \beta_1 CC_{.it} + \beta_2 RT_{.it} + \beta_3 PT_{.it} + \beta_4 IT_{.it} + \varepsilon$$

Where:

ROA= Return on Assets

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ and β_6 , are parameters to be estimated with a priori expectation.

CC= Cash Conversion

RT = Receivable Turnover

PT= Payable Turnover

IT= Inventory Turnover

ε = The Error Term.

DATA PRESENTATION AND ANALYSIS

This chapter presents the results and findings of the study based on the research objective. The results are presented in the form of summary tables. Regression and correlations analysis are used to answer the research objective. This chapter covers presentation of data, analysis and interpretation of the results. The result from various diagnostic and specification tests as well as the descriptive statistics computed for the sample firms are discussed under this chapter. Furthermore, the chapter also contains results from the test of the various hypotheses formulated in the course of the study and the discussion of the findings.

4.1 Data analysis and Presentation of the Study

The table below presents the mean, standard deviation, minimum and maximum for the dependent and independent variables of the model. It shows the average indicators of variables computed from the financial statement.

Table 4.1

Descriptive Statistics

| | PT | RT | CC | IT | ROA |
|-----------|----------|----------|-----------|----------|-----------|
| Mean | 62.07560 | 58.11411 | 57.98563 | 61.94712 | 0.128232 |
| Median | 51.92750 | 39.76299 | 54.63511 | 60.98024 | 0.113567 |
| Maximum | 626.9419 | 280.5866 | 281.1291 | 195.1730 | 0.634001 |
| Minimum | 4.652738 | 0.045229 | -392.7634 | 0.234202 | -1.396307 |
| Std. Dev. | 62.42256 | 52.24306 | 70.19055 | 38.07586 | 0.203423 |
| Skewness | 5.237517 | 1.687057 | -0.973200 | 0.756813 | -2.632193 |
| Kurtosis | 46.04425 | 5.962611 | 14.34232 | 4.172007 | 23.01434 |

| | | | | | |
|--------------|----------|----------|----------|----------|----------|
| Jarque-Bera | 12265.84 | 126.0107 | 827.7298 | 22.90413 | 2676.797 |
| Probability | 0.0000 | 0.000000 | 0.000000 | 0.000011 | 0.000000 |
| Observations | 120 | 120 | 120 | 120 | 120 |

Source: STATA Output 2021

The descriptive statistics of the main variables of this study presented in table 4.1 above, shows that the average PT, RT, CC and IT over the period under investigation and for the 15 banks are 62, 58, 58 and 62 days respectively. The average ROA for the banks over the period and across the listed deposit money bank in Nigeria are 12.8% with a maximum of 63%. Furthermore, the minimum Return on Assets is -140%, with standard deviation of 20%.

Results of descriptive statistics of the main variables revealed that account payable's days by the listed deposit money banks in Nigeria to pay their customers is 62 days while account receivables by the same listed deposit money banks in Nigeria do not extend credit to their customers beyond 58 days. Moreover, it takes 58 days for the listed deposit money banks in Nigeria within the period under investigation to convert their input resources to cash and inventory takes 62 days before it is finally exhausted. However, some of the banks could take as long as 281 days and minimum of 55 days to achieve this. The skewness statistics revealed that the data obtained for all the variables including dependent and independents were not abnormal. Then, the study is considered valid when it is based on valid data or information, and this information is considered valid if obtained from the data quality. Therefore, the result from the normality test signified the normality of the data and further substantiated the validity of the regression result.

Correlation Matrix

Table 4.2 displays the correlation values between dependent and the independent variables and also the relationship between the independent variables themselves. The values were gotten from the Pearson correlation of two-tailed significance. It shows the correlation matrix with the top values displaying the Pearson correlation coefficient between all pairs of variables and the asterisk beside the Pearson correlation coefficient showing the two-tail significance of these coefficients.

Table 4.2

Correlation Matrix

| Correlation | PT | RT | CC | IT | ROA |
|-------------|-----------|-----------|-----------|----------|----------|
| PT | 1.000000 | | | | |
| RT | 0.371272 | 1.000000 | | | |
| CC | -0.521012 | 0.424835 | 1.000000 | | |
| IT | 0.169558 | 0.019753 | 0.406373 | 1.000000 | |
| ROA | -0.053683 | -0.241127 | -0.090009 | 0.076909 | 1.000000 |

Source: STATA Output 2021

The result of the correlation obtainable in table 4.2 shows that RT and IT are positively correlated to PT while CCC is negatively correlated to PT. Equally, all the working capital variables except IT are negatively related to ROA. Similarly, the correlation coefficients among the independence variables are less than 0.5 therefore, there is no problem of multicollinearity among them. The result presented in table 4.2 shows that working capital component are negatively related to return on assets except IT which is positively related to return on assets.

Table 4.2 which presents result of correlation matrix of variables of working capital management and financial performance proxies disclosed that earlier payment to customers, collecting payments from customers within shortest time and converting products produced to cash within shortest period of time brings about increase in return on assets and gross operating profit whereas keeping the products or inventories for longer period implies that the return on assets and gross operating profit will increase.

Analysis and Interpretation of Regression Result

This session presents the regression result of the dependent variable (ROA) and the independent variables of the study (receivable turnover, payable turnover, inventory turnover and cash conversion cycle). The presentation was followed with the analysis of the association between the dependent variable and each individual independent variable and also the cumulative analysis was also captured.

Table 4.3

Panel Regression Result

| Variable | Random Effect Model | | | Fixed Effect model | | |
|----------------------|---------------------|----------------|---------|--------------------|----------------|---------|
| | coefficient | t-stat | p-value | coefficient | t-stat | p-value |
| PT | -4.18997 | -0.64 | 0.528 | 6.339737 | 1.52 | 0.128 |
| RT | 23.31548 | 2.63 | 0.011 | 19.62381 | 2.45 | 0.014 |
| CC | -7.08263 | -0.87 | 0.387 | -15.51313 | -2.49 | 0.013 |
| IT | -.2962038 | -0.14 | 0.893 | .4374606 | 0.25 | 0.834 |
| R² | 0.13 | | | 0.24 | | |
| F-stat | 1.92 | p-value 0.1230 | | 11.60, | p-value 0.0198 | |

Note: *** 1% level of significance, ** 5% level of significance and * 10% level of significant

Summary of regression result for the two models are presented in the table 4.3 above. The result of the random effect model shows that the coefficients of payable turnover (PT), cash conversion and inventory turnover (IT) have a negative and insignificant relationship on profitability of listed deposit money bank in Nigeria while receivable turnover (RT) has a positive and significant relationship on profitability. In the fixed effect model, cash conversion (CC) has a negative but significant effect on profitability while receivable turnover (RT) has a positive and significant on profitability of listed deposit money bank in Nigeria. Both payable turnover (PT) and inventory turnover have a positive but insignificant relationship on listed deposit money bank in Nigeria.

Table 4.4

Result of Hausman Test for all the Models

| | Chi-Statistics | P-value |
|--------------|-----------------------|----------------|
| Fixed Effect | 13.14 | 0.010 |

Source: STATA Output 2021

Hausman test was applied for deciding the appropriate test between fixed and random. If the p-value is less than 0.05, the acceptance of fixed effect estimates over the random effect estimates was confirmed. The use of Hausman test to compare the fixed and random effect models and subsequently make choice between them becomes imperative. The results of Hausman test conducted in

this study is contained in table 4.4 above. The chi-square statistics of the Hausman test is 13.14 and the P-value is 0.010. Since the P-values is less than 5% level of significance, the result of the fixed effect models is preferable. The CC shows a t-value of -2.49 and a beta value of -15.51313 with significant value of 5%. This means that CC is negatively, strongly and significantly influencing return on asset of listed Deposit money banks in Nigeria. It connotes that when there is an increase in CC by one percent (1%), the return on asset of listed Deposit money banks will decrease by 15.5. However, the result also shows that CC has significant relationship with ROA.

Summary

The study sought to establish the effect of working capital management and financial performance of listed deposit money bank in Nigeria. Working capital management were measured using four variables namely inventory turnover period, receivable turnover, payable turnover and cash conversion. Secondary data from the financial statements of banks listed at NSE was collected in this regard. Descriptive analysis, correlation analysis and regression analysis were conducted to achieve the objective of the study.

Results of descriptive statistics of the main variables revealed that account payable's days by the listed deposit money banks in Nigeria to pay their customers is 62 days while account receivables by the same listed deposit money banks in Nigeria do not extend credit to their customers beyond 58 days. Moreover, it takes 58 days for the listed deposit money banks in Nigeria within the period under investigation to convert their input resources to cash and inventory takes 62 days before it is finally exhausted. However, some of the banks could take as long as 281 days and minimum of 55 days to achieve this. The regression results showed that the model accounted for 57.2% of the variance in financial performance as shown by the R². The *F*-statistic of 10.58 was significant at 1% level of significance. This means that the model used was fit to explain the effect of working capital management and financial performance of deposit money banks listed at NSE. The study found receivable turnover, payable turnover, inventory turnover had positive effects on financial performance of deposit money banks listed at NSE. Cash conversion cycle has an insignificant and inverse relationship on financial performance of deposit money banks listed at NSE.

Conclusion

From the discussion of findings, it can be concluded that in banking industry in Nigeria, working capital management has positive relationship with ROA except CCC, one of the components of working capital management which is negatively related and RT which has significant positive relationship with ROA. The implication of this result is that extending days of RT, PT and IT brings about increase in ROA while lessening days of CCC brings about increase in ROA. This implies that when account collection days and inventory turnover days are increased along with decreasing in the days of cash conversion cycle and prompt payment to the suppliers, banks will experience improvement in their gross operating profit.

On the final note, proper analysis of working capital components needs to be constantly carried out to ensure that those critical areas for decision making process as it relates to each of the performance measurement variables should be identified and properly examined. In line with the findings of this study, effective and efficient management of working capital requires proper analysis and examination of each components of working capital as it affects each of the performance measurement variables. Each working capital components are at variance in their reactions to performance variables.

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