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Contribution of Working Capital Management on Financial Performance of Selected Consumer Goods in Nigeria Industry

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Abstract **- This study examined impact of Working capital management on the financial performance of selected consumer goods firms listed on the Nigerian stock exchange. The study employed ex post facto research design and used 10 selected consumer goods firms. The impact of independent variable proxies as current ratio, cash conversion cycle and inventory turnover on dependent variable proxy as earnings per share. Pooled data were collected from published annual report of the selected firms from 2011- 2021 and analyzed using OLS. Specifically the study sought to determine the impact of current assets ratio, cash conversion cycle and inventory turnover on earning per share of the selected consumer goods firms listed on the Nigerian stock exchange with R-squared of 75.79%, Adjusted R-squared of 74.34% and P-Value of 0.4943 > 0.05). Adjusted R-squared of 74.34% and P-value of 0.001<.05. Cash conversion cycle has insignificant impact on the earnings per share of the selected firms with R- squared of 75.79%, Adjusted R-squared of 74.43% and P- value of 0.4688 > 0.05). Inventory turnover ratio has significant impact on the earnings per share of the selected firms with R- squared of 75.79% , Adjusted R-squared of 74.43% and P-value of 0.0002< 0.05). The finding of the study revealed that Current ratio has insignificant impact on the earnings per share EPS of selected firm it is recommended that for the purpose of maximizing earnings per share, managements should pay attention to quick ratio and inventory turnover ratio as they influenced financial performance.**

Keywords: Working capitals, financial management, Consumer goods, Firms, Nigeria stock exchange.

1. Introduction

Nigerian manufacturing industries are facing crucial problems that are persistently led to their winding up [1]. A lot of industries in Nigeria have closed down, some relocated while others are operating far below installation capacity. The management of working capital involves the management of current assets of the business which involves cash, stocks and the like [2]. Current assets are managed so that the firm does not come to debt with its current liabilities exceeding its current assets. This debt could occur when a firm takes more risk by investing, but it is a known fact as seen in the risk and return theory that the more is the risk the more the return. This means that, the business will make more profits if it takes more risk by investing but will also exercise caution so that it does not come to debts; neither has to go borrowing to carry out its day-to-day activities, thus the need for management of working capital. Working capital management requires maintaining optimum balance of receivables, inventories and payables, with the resultant effects on the day-to-day operations of the business [3].

Accounts or trade payables management focuses on the average time taken by a company to pay its trade payables (suppliers); it the current liabilities and all obligations, which mature within a year such as creditors, bills payable, accrued expenses, short-term bank loan, income tax liability and long-term debt excluding bank overdraft, all of which quickly mature in the current year [4]. Moreover, accounts payables management can help to know how much credit time received by the firm from its trade creditors; it therefore shows the breathing time received by the firm in terms of payment of credit purchase. Hence, the effectiveness lies in whether the firm is enjoying the actual credit period promised by suppliers [5]. In a situation where credit is either not available or expensive to obtain, there are corporate issues across almost all the firms that, has to do with liquidity problem and consequently their operating performance. Financial managers are always expected when there is a liquidity problem, to examine the current assets and current liabilities in order to make an informed decision with regard the profitability of their entity. In the same vein, researchers do conduct studies to examine the relationships among the firms' working capital components and profitability using different methodologies [6].

Furthermore, financial stability can be achieved through efficient management of working capital component like inventory, receivable, prepayment and cash. Working capital

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are assets used in the day to day running of business operations. There are wags of managing firm's working capital level; one of the ways is the use of current ratio management [7]. Current ratio is a liquidity ratio that measures the extent which the claims of the short term creditors are covered by the assets expected to be converted to cash in a period roughly corresponding to the maturity period of the short term claim [8]. This means that firms will not be able to operate properly without working capital therefore firms have to consider efficient management of its working capital assets. Similarly, the amount of working capital held by a firm directly determines it margin of safety [9].

In the same vein, when considering the ability of a firm to settle quickly short term liabilities within the shortest possible time without resorting to external borrowing quick ratio is considered appropriate measure of working capital. Quick ratio is also a liquidity ratio that measured how quick a firm can settle its short term liability with immediate realizable asset [10].

Therefore in measuring firm working capital using quick ratio certain current assets items like inventory and prepayment are ignored, this is because either such items cannot easily be converted to cash within the time frame which the liability is due or because cash has already been paid out on a certain benefit and collecting it back might be difficult, inventory and prepayment are the most notable assets affected. Inventory turnover explained the total number of times inventory is sold in a year. Businesses monitor their inventory turnover to determine the demand for their product and management ability to expand sales. High inventory turnover means a business constantly turn inventory into sale and it can lead to high revenue. Inventory turnover is important because a company often has a significant amount of money tied up in its inventory. If the items in inventory do not get sold, the company's money will not become available to pay its employees, suppliers, lenders. It is also possible that a company's inventory will become less in demand, perhaps become obsolete, or even deteriorate. If that occurs some of the company's money will be lost. Having slow moving items in inventory also uses valuable space and makes the warehouse less efficient. While inventory is critical for meeting customers' needs, having too much of the wrong inventory items can result in financial problems [11].

The foregoing discussions have demonstrated that working capital management is essential and can help firms maintain stability in operation and adequate liquidity. Although several researches have been conducted in various sector of Nigeria economy, but limited attention has been given to the consumer goods sector in Nigerian.

2. Methodology

This study adopts a cross panel data methodology. This method will be appropriate since the study investigate impact of independent variable (current ratio) on the dependent variable (earning per share) on a cross sectional data.

2.1 Research Design

This study will adopt ex post facto research design. This method will be considered appropriate since the study seek to establish impact of independent variable on the dependent variable. The listed consumer firms include Champion Breweries Plc, Dangote Sugar Plc, Guinness Nigeria Plc, Honeywell Nigeria Plc, Nigeria Breweries Plc, Nestle Nigeria Plc, Northern Nigeria Flour Mill Plc, PZ Cushion, Flour Mill Plc and Enamel Wear Plc. All data used in analysis will be extracted from the annual report of the selected firm.

2.2 Population of the Study

The population of the study will be comprises of consumer goods companies listed on the Nigeria during the period 2011 - 2021. This sector comprises companies that are engaged in the production and manufacturing of consumers goods. These are products classified for personal use, specifically intended for the mass market. These products encompass goods that are consumed rather than used in the production of other goods, and include both durable and non-durable consumables. Included in this sector are manufacturers of household durable goods as well as manufacturers' of food and beverages [11].

2.3 Method of Data Collection

The CR, CCC, and ITR of the selected firms will be computed by the researcher based on the data from annual reports of the selected firms from 2011 – 2021 while earnings per share for the relevance year will be picked directly from the annual report of the selected firms. This period will be considered appropriate in determining impacts of working capital management on the financial performance of selected firms. The study will used 100 observations that were obtained by multiplying 10 firms by 10 years which will be the study period.

2.4 Model Specification

The relationship between working capital management and financial performance of listed consumer's goods firms will be tested in a linear regression model in which independent variable working capital management will be measured with current ratio, cash conversion cycle and inventory turnover and the dependent variable financial

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performance will be measured with earnings per share. The linear regression model is given as

$$EPS = \beta_0 + \beta_1 CR + \beta_2 CCC + \beta_3 + IT + \mu$$

Where:

EPS= Earnings per share
CR = Current ratio
CCC= Cash conversion cycle
IT = Inventory turnover ratio
μ= Error term

The parameter β_1, β_2, β_3, are the co-efficient of the independent variables and β0 is intercept of the dependent and independent variable.

3. Result and Discussion

The first objective of this article was to examine impact of current ratio on the earnings per share of consumer goods firms in Nigeria. The regression analysis results in Table 1 reveal insignificant impact of CR on earnings per share suggesting that every unit increase in CR was insignificantly increase EPS by 0.0030872. This increase is insignificant at 95% confidence level and it is consistence with a prior expectation that CR has no significant impact on earnings per share. R^2 0f 0.757866 suggest that about 75.79% of the variation in the dependent variable is explained by the independent variables The second objective of this study was to examine impact of cash conversion cycle on the earnings per share of consumer goods firms in Nigeria.

The regression analysis results in Table 1 reveal insignificant impact of CCC on earnings per share suggesting that every unit increase in CR was insignificantly increase EPS by 0.4688. This increase is insignificant at 95% confidence level and it is consistence with a prior expectation that CCC has no significant impact on earnings per share [13]. R^2 0f 0.757866 suggest that about 75.79% of the variation in the dependent variable is explained by the independent variables. The third objective of this study was to examine impact of inventory turnover ratio on the earnings per share of consumer goods firms in Nigeria.

The regression analysis results in Table 1 reveal significant impact of ITR on earnings per share suggesting that every unit increase in ITR was significantly increase EPS by 0.0002. This increase is significant at 95% confidence level and it is inconsistence with a prior expectation that ITR has no significant impact on earnings per share [14]. R^2 0f 0.757866 suggest that about 75.79% of the variation in the dependent variable is explained by the independent variable [15].

Table 1: Summary of the descriptive statistics

Variables	Mean	Median	SD	MAX	MIN
CR	1.195	1.155	0.6115	2.9000	0.070000
CCC	-1.379	-0.1300	8.093	4.420	-65.00
ITR	7.290	7.245	3.215	14.280	0.010000
EPS	4.15	1.175	9.407	52.260	-1.3400

Source: Author's computation

Table 2: Regression Analysis Result

Independent Variable	Coefficient	Std. Error	T-Ratio	P- Value
C	0.777978	0.120071	6.479	1.28e-08 ***
CR	0.00308722	0.00449200	0.6873	0.4943
CCC	0.00336226	0.00461455	0.7286	0.4688
ITR	−0.0518525	0.0132391	−3.917	0.0002
Sum squared residual 6.427823 S.E. of regression 0.309738 R-squared 0.757866 Adjusted R-squared 0.743411 Durbin-Watson 0.951234				

Source: Author's computation

4. Conclusion

Based on the findings the study concludes that:

i. CR has insignificant impact on EPS of the selected consumer goods firms listed on the Nigerian Stock Exchange during the period under review.
ii. CCC has insignificant impact on the EPS of the selected consumer goods firms listed on the Nigerian Stock Exchange during the period under review.
iii. ITR has significant impact on the EPS of the selected consumer goods firms in Nigeria.

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