WORKING CAPITAL MANAGEMENT AND FINANCIAL PERFORMANCE OF LISTED CONSUMER GOODS (FOOD PRODUCTS) COMPANIES IN NIGERIA

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Abstract

Working capital management is one of crucial decisions that must be taken by the management for the survival of the firm. It affects not only profitability but also liquidity of the firm. This study examines working capital management and financial performance of listed consumer goods (food products) companies in Nigeria for a period of ten years, 2010 to 2019. Data were collected from annual reports and accounts of sampled companies. Working capital management was measured by inventory conversion period, average collection period, average payment period and cash conversion period, while return on assets and earnings per share were used to measured financial performance. The study employed descriptive statistics, correlation matrix and regression analysis to analysis data collected. Findings of the study reveal that working capital management variables have positive and significant impact on financial performance variables of sampled companies. The study recommends that listed consumer goods (food products) companies should manage their working capital effectively and efficiently in order to improve their financial performance.

Keywords: ***Working Capital Management, Return on Assets, Earnings Per Share, Trade-off Theory, Consumer Goods Companies***

Introduction

Working capital management is one of short-term financing decisions that plays important role in the success or failure of a firm. The crucial role of working capital management lies in keeping adequate current assets to take care of current liabilities, in order to ensure smooth running of a company. It involves manage of firm's inventories, accounts receivable, accounts payable and cash conversion cycle, in order to achieve balance between risk and return and contribute to the firm's value. The growth of a firm depends on many factors one of such is the ability of a firm to use its current assets to meet its current liabilities (Madugba and Ogbonnaya, 2016). In view of this, firm's management needs to bewield effectively and efficiently its working capital not only to maximise profit, but also to eschew

problem of illiquidity. Firm's current assets and current liabilities should be managed in a manner that will not only lower the risk of incapability to meet firm's current liabilities, but also avoid excessive investment in current assets. Excessive investment in current assets will reduces the firm's risk of illiquidity, leads to unnecessary accumulation of inventories, defective credit policy, high bad debt, slack collection period and cash tied down. Inadequate investment in working capital will not only impairs firm's profitability but may also lead to production interruptions, underutilization of fixed assets, stock-out, cash shortage and insolvency. Hence, each firm should have working capital policy that will prevent excessive or inadequate working capital to minimize risks, maintain liquidity and maximize profitability.

Financial performance measured in terms of profitability; use to assess success or failure of a firm. Going concern of a firm anchored on how such firm generates profit. Profitability can be defined as the final measure of economic success achieved by a firm in connection to capital employed. Financial performance can be measured in many ways, include: net profit margin, return on investment, return on assets, return on equity, earnings per share. Firm should balance its liquidity and profitability in order to continuously be in operation, because both liquidity and profitability are important for firm existence. Listed consumer goods (food products) companies are choice due to the fact that companies under this sub-category produce essential goods to Nigerians and also contribute immensely to the economy of the nation.

Previous studies have made contributions on the relationship between working capital management and financial performance (Adagye, 2015; Adamu, 2016; Mousavi and Jari, 2012; Pais and Gama, 2015). Evidence from some of these studies showed that working capital management has significant impact on financial performance, while others concluded that there is no significant effect of working capital management on financial performance. Many past studies both local and foreign that examined impact of working capital management on financial performance of firms used firms across the industries (Faith, 2016; Feletilika, 2011; Mike, 2014; Niresh, 2012; Waheed and Nabi, 2018). This study contributes to the existing few studies in Nigeria on working capital management and financial performance by carried out study on working capital management and financial performance of listed consumer goods (food products) companies in Nigeria, study based on specific sub-sector of economy of the country. Also, the study is different from past studies by using two dependent variables and three additional control variables which are not considered by many existing studies. These are the gaps filled by this study.

Based on these, the main objective of this study is to examine working capital management and financial performance of listed consumer goods (food products) companies in Nigeria. To achieve this, the following specific objectives are raised: to assess the effect of working capital management on return on assets of listed consumer goods companies in Nigeria and to investigate impact of working capital management on earnings per share of listed consumer goods companies in Nigeria. Following this introductory section, the rest of this study organised as follows: section two reviews the conceptual, theoretical and related studies, section three describes methodology used by the study. Section four contains results and discussions, while section five winds up the study with conclusion and recommendations.

Literature Review

Conceptual Clarifications

Working capital can be defined as the difference between firms' current assets and current liabilities. It shows the extent to which firm can meet its day-to-day financial obligations. It is expected that management of company should invest adequately in working capital. Each company management should determine its working capital that will not lead to excessive or inadequate working capital. Excessive investment in working capital will impairs company's profitability, while inadequate investment in working capital may threaten solvency of the company. Working capital management involves administration of current assets (inventories, accounts receivable, marketable securities and cash) and current liabilities (accounts payable, bills payable and bank overdraft). According to Adagye (2015) working capital management is total management of cash, accounts receivable, inventories, accounts payable, accruals, short term loans and cash, to ensure profitability of the firm. It can be defined as relationship between firm's current assets and current liabilities. It involved management of current assets and current liabilities and determining the ratio of current assets to current liabilities. Many factors that determine firm's working capital have been identified in the literature (Ali, 2011; Mensah, 2012; Timothy and Alex, 2016) among them are: nature of business, sales and demand conditions, credit policy, technology and manufacturing, policy, change in price level, business cycle, availability of credit and operating efficiency. Review of past studies revealed that there are various ways of measure working capital management of a firm, these include use of inventory conversion period, accounts receivable period, cash conversion cycle and accounts payable period.

Financial performance can be defined as monetary gain accomplished by the firm at the end of accounting period. It is usually measured in terms of profitability, which is ability of a firm to make profits from all its activities (operating, investing and financing activities). One of the corporate objectives is profit maximization, which means continuous generating profits; by ensure that revenue is more than all expenses. In the literature various variables have been used to measured performance, among them are return on assets, return on equity, return on investment, return on capital employed, net profit margin, earnings per share, earnings yield and so on. Listed consumer goods (food products) companies are a category of companies that produce items purchased by individual and households rather than producing other goods. This sub-sector includes companies that produce foods, flour, sugar, salt and beverages. As at 31st December, 2020, seven companies in this sub-category were listed on the Nigeria Stock Exchange prominent among them are Dangote Flour Mills, Nascon Allied Industries and Union Dicon Salt.

Review of Related Literature

Previous research studies have examined the relationship between working capital management and financial performance used different variables. Among them is the study of Abbasali and Milad (2012) who examined impact of working capital management on profitability and market evaluation of the companies listed in Tehran Stock Exchange in Iran. The study used panel data set of 168 year end observations for the period 2006 to 2010. They used regression analysis to determine impact of working capital management on financial

performance. The results of their study revealed that there is a significant relationship between working capital management variables and profitability variables.

Niresh (2012) investigated the relationship between working capital management and financial performance of listed manufacturing companies in Sri Lanka. The study used sample of 30 manufacturing companies listed on the Colombo Stock Exchange for the period of 2008 to 2011. Working capital management was measured using cash conversion cycle, current assets to total assets and current liabilities to total assets, while financial performance was measured using return on assets and return on equity. The study used regression model to analyse the data collected from sampled companies. Correlation and regression analysis were employed, the study results showed that there is a significant relationship between current assets to total assets and financial performance variables. There is no significant relationship between cash conversion cycle and financial performance variables.

Akoto, Awunyo and Angmor (2013) carried out research on the relationship between working capital management practices and profitability of listed manufacturing companies in Ghana. The researchers used data collected from all the listed manufacturing companies in Ghana for the period of five years, 2005 to 2009. The study used return on equity to captured financial performance, while accounts receivable days, accounts payable days and cash conversion cycle were used to capture working capital management. The study used correlation and regression analysis to analyses data collected. Results of the study showed that accounts receivable days and cash conversion cycle have positive and significant influence on profitability. The accounts payable days has negative and significant impact on profitability of listed manufacturing firms in Ghana.

Angahar and Alematu (2014) observed the impact of working capital management on profitability of Nigerian cement companies for a period of eight years, 2002 to 2009. The study used sampled of four out five cement companies quoted on Nigerian Stock Exchange. The researchers used return on assets to measured profitability, while accounts receivable days, inventory conversion period and cash conversion cycle were used to measure working capital management. Data of the study were analysed using descriptive statistics and multiple regression analysis. The study found a positive and significant relationship between cash conversion cycle and profitability. The results revealed that accounts receivable days and inventory conversion period have negative impact on profitability of sampled cement companies in Nigeria.

Ikpefan and Owolabi (2014) studied the relationship between working capital management and profitability of Nestle Nigeria Plc and Cadbury Nigeria Plc for the period of 2008 to 2012. The study used return on equity as profitability variable, while trade receivable collection period, trade payable payment period and current ratio were used as a working capital management variables. The study used correlation analysis to analyse the data collected. Results showed negative relationship between trade receivable collection period, current ratio and return on equity, while trade payable payment period is positively related with return on equity in Nestle Nigeria Plc. Positive relationship between trade receivable collection period and return on equity and negative relationship between trade payable payment period, current ratio and return on equity recorded in Cadbury Nigeria Plc.

Adagye (2015) assessed the effect of working capital management on profitability of Deposit Money banks listed on the Nigerian Stock Exchange for a single period of year 2013.

The researcher used current ratio, profit before tax to current liabilities, operating cash flow to current liabilities and cash balance to total liabilities as proxies of working capital management, while return on assets and return on equity used as proxies of profitability. The study employed regression analysis to analyse data collected. The study results showed that all the variables used as proxies of working capital management have positive effect on the two proxies of profitability.

Daniya, Baba and Abdulrahaman (2018) used data from sample of five listed conglomerate companies on Nigerian Stock Exchange for a period of ten years, 2006 to 2015, to investigate impact of working capital management on financial performance of sampled companies. Researchers used debtors' collection period, creditors' payment period and cash conversion cycle to measure working capital management, while financial performance was measured using return on investment. The study used descriptive statistics, correlation analysis, variable inflation factor and ordinary least square regression to analyse the data. Results of the study found that debtors' collection period and creditors' payment period were negatively related to return on investment, while cash conversion cycle has a positive relationship with return on investment of the sampled conglomerate companies.

In a related study, Soyemi, Sanyaolu and Bamigbade (2018) carried out study on working capital management and financial performance of listed manufacturing companies in Nigeria. The study used data collected from twelve listed manufacturing companies for the period of ten years, 2007 to 2016. Earnings per share, operating cost and operational efficiency were used to measure financial performance, while inventory turnover, receivable collection period, payable payment period and cash conversion cycle were used to measure working capital management. Researchers used panel unit root test, Hausman test and regression analysis to analyse the data. Results from the study established that working capital management variables considered by the study (inventory turnover, receivable collection period, payable payment period and cash conversion cycle) have no significant impact on financial performance (earnings per share, operating cost and operational efficiency) of sampled manufacturing companies in Nigeria.

Waheed and Nabi (2018) examined impact of working capital management on financial performance of cement companies in Pakistan for the period of fifteen years, 2002 to 2016. The study measured working capital management used quick ratio, current ratio and average collection period, while financial performance measured by net profit margin, earnings per share and return on equity. Researchers used analysis of variance and multiple regression analysis to analyse the data. Results of the study indicated that all the three independent variables have no impact on net profit margin and earnings per share, while all the three independent variables have significant impact on return on equity.

Mabandla and Makani (2019) conducted a study on the nexus between working capital management and financial performance of twelve listed food and beverage companies in Johannesburg Stock Exchange (South Africa). The study used data collected from the twelve sampled companies for the period of ten years, 2007 to 2016. Return on assets used to measure financial performance while inventory conversion period, average collection period and average payment period used to measure working capital management. The study used descriptive statistics, correlation analysis and regression analysis to analyse the data. Results of the study revealed that there is a positive relationship between inventory conversion period,

average payment period and return on assets. Average collection period has a negative relationship with return on assets.

Another study conducted by Tingbani, Tauringana, Damoah and Shaven (2020) examined relationship between working capital management and financial performance of United Kingdom listed firms. The study used sampled of 802 firms listed on London Stock Exchange for the period of eleven years, 2004 to 2014. The study used return on assets and tobin's Q ratio to measure financial performance, while investment in working capital and cash conversion cycle were used to measure working capital management. Researchers used descriptive statistics, correlation analysis and regression analysis to analyse data collected. Results of the study revealed that impact of working capital management on financial performance changes to reflect contingency variables, such as environmental, resources and management capabilities of the company.

Methodology

This study is used ex-post facto research design and data were collected from annual reports and accounts of sampled companies. The population of this study consists of all the twenty-two (22) consumer goods companies listed on the floor of Nigerian Stock Exchange as at 31st of December, 2020. We used sample size of seven listed consumer goods under food products sub-section that have up till date financial records. The companies are: Dangote Flour Mills Plc. Dangote Sugar Refinery Plc., Flour Mills Nigeria Plc., Honeywell Flour Mills Plc., Nascon Allied Industries Plc., Northern Nigeria Flour Mills Plc. and Union Dicon Salt Plc. Secondary data were used in this study which obtained from annual reports and accounts of sampled companies for the period of ten years (2010-2019). These periods are selected due to the fact that the periods are recent and adequate for the study. The study used descriptive statistics, correlation analysis and regression analysis. Descriptive statistics such as mean, minimum, maximum and standard deviation are employed to assess the spread of the variables used in the study. Correlation analysis was used to determine the nature and extent of relationship among variables used. Regression analysis was used to examine the impact of working capital management variables on financial performance variables.

Description of Variables

Table 1

Variables	Abbreviation	Measurement
(a) Dependent Variables:		
(i) Return On Assets	ROA	Earnings Before Interest and Tax divided by Total Assets.
(ii) Earnings Per Share	EPS	Earnings After Tax divided by Number of Ordinary Shares.
(b) Independent Variables:		
(i) Inventory Conversion Period	ICP	Average Inventory divided by Cost of Goods Sold, multiplied by 365 days.
(ii) Average Collection Period	ACP	Account Receivable divided by Credit Sales, multiplied by 365 days.
(iii) Average Payment Period	APP	Account Payable divided by Credit Purchases, multiplied by 365 days.
(iv) Cash Conversion Period	CCP	Inventory Conversion Period plus Average Collection Period minus Average Payment Period.
(c) Control Variables		

(i) Current Ratio	CR	Current Assets divided by Current Liabilities.
(ii) Company Size	CS	Natural Logarithm of Total Assets.
(iii) Growth	GW	Current Year Turnover minus Previous Year Turnover divided by Current Year Turnover.

Source: Authors' Compilation, 2021

Model Specification

The study modified and adopted econometric models of Adagye (2015); Ikpefam and Owolabi (2014) and Onwumere, Ibe and Ugban (2012), to examine the relationship between working capital management and financial performance of listed Consumer Goods (Food Products) companies in Nigeria. The study models are:

ROA= βo + β1(ICP) + β2(ACP) + β3(CCP) + β5(CR) + β6(CS) + β7(GW) + Ɛt……..(i)

EPS= βo + β1(ICP) + β2 (ACP) + β3(CCP) + β5(CR) +β6(CS) + β7(GW) + Ɛt ……..(ii)

Where:

ROE = Return On Assets, EPS = Earnings Per Share, ICP = Inventory Conversion Period,
ACP = Average Collection Period, APP = Average Payment Period,
CCC = Cash Conversion Period, CR = Current Ratio, CS= Company Size,
GW = Growth, βo = Intercept of relationship in the model / constant.
β1-β7= coefficient of each independent variable and Ɛt = Error term.

Results and Discussions

Descriptive Statistics

Table 2: Descriptive Statistics

Variables	Observation	Mean	Minimum	Maximum	Standard Deviation
ROA	70	0.436	-2.687	1.185	1.479
EPS	70	0.675	-0.894	1.063	1.260
ICP	70	69.067	19.377	301.629	66.571
ACP	70	74.297	28.380	322.822	71.627
APP	70	72.565	61.968	298.184	64.893
CCP	70	66.907	28.543	153.152	43.397
CR	70	1.426	0.637	2.683	0.836
CS	70	18.463	14.468	20.718	5.791
GW	70	0.121	-0.461	0.294	1.386

Source: Authors' Computation, 2021

Table 2 showed the results of descriptive statistics. From the table listed consumer goods (food products) companies in Nigeria average return on assets is 0.436, with minimum value of -2.687 and maximum value of 1.185. Average value of earnings per share is 0.675, with minimum value of -0.894 and maximum value of 1.063. The table also showed the range of independent -variables. Inventory conversion period ranged from 19 days to 302 days, with a mean value of 69 days. Average collection period ranged from 28 days to 323 days, with an average value of 75 days. Average payment period ranged from 62 days to 298 days, with a mean value of 73 days. Cash conversion period ranged from 29 days to 153 days, with an average value of 67 days. Current ratio average value is 1.426, with minimum value of 0.637 and maximum value of 2.683. Company size minimum and maximum values are 14.468 and

20.718 respectively, with mean value of 18.463. Growth average value is 0.121, with minimum and maximum values of -0.461 and 0.294 respectively.

Correlation Analysis

Table 3: Correlation Matrix

Variables	ROA	EPS	ICP	ACP	APP	CCP	CR	CS	GW
ROA	1								
EPS	0.3614 (0.000)	1							
ICP	-0.328 (0.037)	-2.414 (0.041)	1						
ACP	-0.268 (0.031)	-3.723 (0.024)	0.234 (0.136)	1					
APP	0.154 (0.026)	0.063 (0.000)	0.273 (0.136)	0.164 (0.129)	1				
CCP	-0.168 (0.034)	-0.234 (0.210)	-0.186 (0.134)	-0.229 (0.041)	-0.292 (0.036)	1			
CR	0.236 (0.000)	0.369 (0.000)	0.167 (0.000)	0.167 (0.000)	0.312 (0.001)	0.065 (0.000)	1		
CS	0.256 (0.000)	0.218 (0.002)	0.106 (0.016)	0.098 (0.091)	1.021 (0.074)	0.817 (0.081)	0.613 (0.000)	1	
GW	0.048 (0.002)	0.157 (0.003)	0.163 (0.001)	0.135 (0.016)	0.094 (0.041)	0.127 (0.003)	-0.028 (0.000)	0.082 (0.013)	1

Source: Authors' Computation, 2021-

Correlation matrix results showed the direction of relationship among the variables used in this study. The results in table 3 indicated that both return on assets and earnings per share are significantly negative correlated with inventory conversion period, average collection period and cash conversion period at the 5% level of significance. The two dependent variables are significantly positive correlated with average payment period, current ratio, company size and growth at the 5% level of significance. This showed that decreased in inventory conversion period, decreased in average collection period and decreased in cash conversion period improved return on assets and earnings per share (financial performance) of studied companies. While increased in average payment period, increased in current ratio, increased in

company size and increased in growth reduced return on assets and earnings per share (financial performance) of sampled companies.

Regression Analysis

Table 4: Results of Regression Analysis

Models:	Model 1		Model 2	
	Dependent Variable: ROA		Dependent Variable: EPS	
Independent Variables:	Coefficient	Prob. Value	Coefficient	Prob. Value
ICP	-0.314	0.003	-0.263	0.078
ACP	-0.257	0.031	-0.286	0.020
APP	0.066	0.186	1.307	0.085
CCP	-0.384	0.042	-0.613	0.016
CR	0.274	0.021	0.648	0.039
CS	1.098	0.006	0.831	0.196
GW	0.310	0.047	1.047	0.102
C	1.269	0.027	1.401	0.019
R-Square	0.528		0.561	
Adjusted R-Square	0.476		0.493	
F-Statistic	10.168		12.006	
Prob. (F-Statistic)	0.002		0.001	
Durbin Watson Stat	1.947		1.992	

Source: Authors' Computation, 2021

The regression analysis results in table 4 showed the impact of individual independent variable on two dependent variables and overall impact of independent variables on two dependent variables. The results from the table 4 indicated that inventory conversion period, average collection period and cash conversion period (coefficient values of -0.314, -0.257, -0.384, -0.263, -0.286, -0.613, with significant levels of 0.003, 0.031, 0.042, 0.078, 0.020, 0.016) respectively, have negative impact on return on assets and earnings per share (financial performance). This implied that reduction in inventory conversion period, average collection period and cash conversion period increased financial performance of listed consumer goods (food products) companies. This is consistent with the studies of Akoto, Awunyo and Angmor (2015), Daniya, Baba and Abdulrahaman (2018) and Mabandla and Makoni (2019), who found that reduction in inventory conversion period, average collection period and cash conversion period increased firm's financial performance. Average payment period (coefficient value of 0.066, 1.307, with significant level of 0.186, 0.085) respectively, has a positive relationship with both return on assets and earnings per share. This implied that delayed payment to creditors enhanced financial performance of sampled companies. This finding supports studies of Kaddumi and Ramadan (2012) and Tingbani, Tauringana, Damoah and Shaven (2020). The results of this study showed that working capital management variables (inventory conversion period, average collection period, average payment period and cash conversion period) have impact on financial performance variables (return on assets and earnings per share) of sampled

companies. This indicated that sampled companies improved their financial performance by reducing investment in current assets (inventories, debtors and cash) and increased creditors' payment period.

Regard to control variables, table 4 results showed that current ratio, company size and growth (coefficient of 0.274, 1.098, 0.310, 0.648, 0.831 and 1.047, with significant levels of 0.021, 0.006, 0.047, 0.039, 0.196 and 0.102), have positive relationship with return on assets an earnings per share (financial performance). The results found a positive and significant relationship between return on assets (financial performance) and all the control variables: current ratio, company size and growth. Earnings per share (financial performance) has a positive and significant relationship with current ratio and a positive but insignificant relationship with company size and growth.

Regression results of model 1, when return on asset is dependent variable. The computed R-square value is 0.528. This implied that collectively all the explanatory and control variables explained 52.80% variation in return on assets of listed consumer goods (food products) companies in Nigeria, while remaining 47.20% of the variation explained by other factors not accommodated in model 1. The adjusted R-square showed that model 1 has 47.60% fitness in explaining return on assets of sampled companies. Durbin-Waston was used to test first order serial correlation among variables and since computed Durbin-Waston value for model 1 of 1.947 is close to the benchmark of 2. This showed that there is absence of first order serial correlation problem of regression in the model and proved that autocorrelation problem did not exist. The constant coefficient value of model 1 which is 1.269, with probability value of 0.027, which is significant at 5%, indicated that all the working capital management variables and control variables have positive and significant impact on financial performance variable (return on assets) of sampled companies. Also F-statistic value of 10.168 with probability value of 0.002 indicated all the independent and control variables considered in this study have significant impact on financial performance variable (return on assets) of sampled companies.

Model 2 regression results, when earnings per share used as dependent variable. The computed R-square of 0.561, implied that collectively all the independent and control variables explained more than 56% variation in earnings per share of sampled companies, while less than 44% of the variation explained by other factors not included in model 2. Adjusted R-square of 49.30% showed that model 2 fitness in explaining earnings per share of sampled companies. Durbin-Waston for the model is 1.992, which is close to the benchmark of 2. This proved that autocorrelation problem did not exist and there is absence of first order serial correlation problem of regression in the model. The constant coefficient of model 2 of 1.401, with probability value of 0.019, which is significant at 5%, showed that all the working capital management and control variables have positive and significant impact on financial performance (earnings per share) of sampled companies. Furthermore, F-statistic value of 12.006 with probability value of 0.001 confirmed the significant impact of working capital management and control variables on earnings per share of sampled companies.

Conclusion and Recommendations

The study investigated the relationship between working capital management and financial performance of listed consumer goods (food products) companies in Nigeria from 2010 to 2019. The impact of working capital management on financial performance of sampled

companies was established through regression analysis. Regression results of the study showed that working capital management variables like inventory conversion period, average collection period, and cash conversion period have negative impact on financial performance variables (return on assets and earnings per share) of sampled companies. The average payment period is positively related to financial performance (return on assets and earnings per share) of sampled companies. Also, the results showed that collectively all the working capital management variables have positive and significant impact on financial performance (return on assets and earnings per share) of sampled companies, despite the fact that individual variable of working capital management has different impact on financial performance variables.

Based on the above results, the following recommendations are suggested to the management of listed consumer goods (food products) companies in Nigeria. Management of listed consumer goods (food products) companies should continue to sustain or further reduce their inventory conversion period, average collection period and cash conversion period, since these variables improved their financial performance (return on assets and earnings per share) and also boost liquidity position of sampled companies. In addition, average payment period should be maintained or further increase, since is currently enhance financial performance of the sampled companies. Finally, management of listed consumer goods (food products) companies should manage their working capital effectively and efficiently in order to improve their financial performance. This can be achieved by improving inventory convention period, reducing average collection period and cash conversion period and delaying average payment period.

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