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Working Capital Management and Business Performance

Kabir Yazid Ibrahim¹, Muhammad Usaini², Sunday Elijah^{3,*}

^{1&2}Department of Accounting and Finance, Federal University Gusau, Zamfara State, Nigeria.

²Department of Economics, Federal University Gusau, Zamfara State, Nigeria.

*Corresponding Author E-mail: elijahsundayecons@gmail.com

Abstract

As the global economy gets out of the credit crunch- a condition where credit is either not available or expensive to attract, certain lesson need to be brush under the carpet, one of the most important key reasons advanced by experts is the lack of proper management of working capital which consequently results in to liquidity problem, many business organizations are faced with the problem of getting fund readily available to meet up with their current needs, therefore, there is an urgent need for business organizations to maintain an adequate liquidity through proper management of working capital to meets its contingent needs. The study examines the effect of working capital management on business performance. The study adopts a qualitative research design, data for the study were collected using the secondary method of data collection from the body of existing empirical studies. Data for the study were analysed using the regression results of the empirical studies reviewed. The study concludes that that the higher the cash conversion cycle and debtors' collection period the lower the business performance, meaning that the cash conversion cycle and debtors' collection period plays an important role in determining business performance as it can lead to increase or decrease in business profitability. On the other hand, the study also concludes that the higher the creditors' payment period the higher the business performance as it helps to improve profitability. However, the study recommends among others that business should maintain an optimum cash conversion cycle and Debtors' collection period as high cash conversion cycle and debtors' collection period lead to lower profitability and business performance.

Keywords: working capital, business performance, liquidity, cash conversion cycle.

1. Introduction

The term working capital simply refers to the residue of current assets over current liabilities. A working capital of a firm can be referred to as firm's investment in short term assets, that is, cash and cash equivalent, account receivables, short term or marketable securities and inventories. In other words, it is the collection of all current assets less current liabilities (Kurfi, 2006). The term also refers to the proportion of assets that is used for the day to day running of a business organization by the management. Working capital therefore is the excess of current assets over current liabilities and thus refers to as the life blood of a company. Nurein (2014) and Finau (2011) defined working capital as the excess of current assets over current liabilities. This definition actually brought together the basic tenets of working capital (current assets and current liabilities).

Working capital management according to Kurfi, (2006) refers to all aspect of the administration of both current assets and current liabilities. Thus, a proper working capital management should ensure that current asset holdings are extended to the point where the marginal returns on increase in such assets are just equal to the cost of capital require to finance the increase, while current liabilities should be used instead of long-term debt which would lower the average cost of capital. Working capital management in respect to the administration of both current assets and current liabilities of the company under the economic situation of Nigeria usually determines the success or otherwise of the company. Singh and Asress (2011) reported that well organized WCM, has a considerable participation on performance and short-term solvency of firms. Nwankwo and Osho (2010) added that WCM involves the adequate mixture of CA and CL for keeping the business run efficiently particularly in terms of energy, goodwill and time. Similarly, Asghar and Syed (2012) defined working capital management as decisions made in respect of current assets. Raheman and Nasr (2007) suggested that if the firms properly manage their cash, accounts receivables, and inventories this will ultimately help firms to increase their profitability

Business performance is the rate at which business success is measured; business performance can be assessed in the basis of its financial performance. The term financial performance refers to the money generated as a result of carrying out a particular business activity; it can also be described as the reward for the entrepreneurs' investment in the business. The business performance or profitability as it is otherwise called refers to the performance of business measure in terms of return on asset (ROA), return on equity (ROE), net profit margin, earning per share, return on investment (ROI), return on capital employed etc.

The ability of a company to remain in business for a long time and continue to exist as a going concern is greatly dependent in the efficient management of its working capital. Although profitability may be considered as the governing factor of a business, nevertheless, if working capital is not effectively managed, the business may come to a halt, even if the business was otherwise a successful and profitable company. It is essential that at any point in time a business should be in a position of stabilise solvency. That is, in a position to pay its debt as at when due and take advantage of business opportunities as they come or meet contingencies that may be reasonably visualized, a business may have a large amount of surplus assets and liabilities but if such asset are fixed, there will probably be a great difficulty in finding them ready to meet their current liabilities without having recourse to borrowing on the security fixed asset. Thus, in this regard current asset and consequently working capital plays a vital role. Considering the significance of working capital management in determining business success and the continued failure of small businesses due to liquidity problem the research centered on the issues and different tools of working capital management which will invaluablely contribute to achieve efficiency. For example, Muhammed (2015) discover a positive significance relationship between creditors payment period and financial performance. Micheal, Segun and Taiwo, (2017) conclude that efficient working capital management improved performance. Shadrack, Jane, & William, (2015) and Vincent, (2012) discover a negative significant relationship between working capital

management and financial performance. Based on the effect that working capital management has on business success, the researchers undertake this problem to carry out an empirical review in order to discover the extent to which working capital management affect firms' financial performance. To achieve the objectives of the study the following hypothesis were formulated:

H0₁: Cash conversion cycle has no significant effect firms' financial performance?

H0₂: Debtor's collection period has no significant impact on firms' financial performance.

H0₃: Creditors' payment period has no significant effect on firms' financial performance.

2. Literature review

The purpose of this section is to review the relevant literature regarding the subject matter, it consists of the conceptual review, empirical and the theoretical review concerning the concept of working capital management.

Conceptual review

Nurein (2014) and Finau (2011) defined working capital as the excess of current assets over current liabilities. This definition actually brought together the basic tenets of working capital (current assets and current liabilities). There is a consensus among scholars with respect to the definition of working capital which is an amount of money available to finance the organization's short-term debt obligation. The availability of this short-term fund is a function of excess of current assets over current liabilities. While the definition of working capital remains same among scholars, effective management of firms' working capital is what put firms apart. This is because, while some managers may exercise due care and diligence in the management of firm's current assets and current liabilities, other managers may result to the use of intuition, rule of thumb and personal judgment which could mare effective working capital management. Organization's working capital components are categorized according to Arnold (2008) and Gitman (2009), into three main components. These are: Inventory management consisting of raw materials, work in progress and stock of finished goods; Accounts receivable and payable management which Accounts for amount recoverable and owed to other firms and individuals in the ordinary course of business of the firm (Feletilika, 2011), and finally cash management which requires the formulation of strategies to facilitate early collection of debt owe to the firm and delaying payments for credit by the firm (Block &Hirt, 1992 and Lantz, 2008). This enables firms to have adequate cash balances to discharge short term debt obligations when they fall due.

Aremu, Ekpo, Mustapha and Adedoyin (2013) claimed that firm's ability to identify appropriate capital requirements and sources of raising funds will help in strengthening their operation as inadequate capital is the major causes of business failure. Alnoor, Charles, Srikant and George (2008) identified working capital as current assets minus current liabilities. Kehinde (2011) explained that working capital is part of company's total capital which is employed in the short-

term operations. Onaolapo and Kajola (2015) classified working capital into gross working capital and net working capital and stated that gross working capital is regarded as the amount invested in a firm's current assets while net working capital is the excess of current assets over liabilities. Working capital is an important issue during financial decision making since its being a part of investment in asset that requires appropriate financing investment (Francis, 2015).

Asghar and Syed (2012) defined working capital management as decisions made in respect of current assets. Raheman and Nasr (2007) suggested that if the firms properly manage their cash, accounts receivables, and inventories this will ultimately help firms to increase their profitability. The assertion that the management of short-term assets and short-term liabilities has an influence on the company's profitability and risk is gaining considerable attention (Banos-Caballero et al., 2012). In pioneering research, Smith (1980), suggested that managing short-term assets and liabilities is essential since it has an impact on companies' profitability and risk. In the process of managing a firm, an asset-liability mismatch may arise leading to an increase in profitability in the short run, but endangering liquidity. Block and Hirt (2008) opined that working capital management involves the financing and management of current assets of the firm. The financial executive probably devotes more time to working capital management than any other activity. Current assets by their nature are changing daily, if not hourly, and managerial decision must be made, management must distinguish between those current assets that are easily converted to cash and those that are more permanent. The financing of asset should be tied to how long the asset is likely to be in the balance sheet, long term financing is usually more expensive than short term financing based on the theory of the term structure of interest rate, therefore, risk as well as profitability, determines the financing plan for current assets.

Theories on working capital management were intensely discussed by Gitman & Zutter (2014) when they highlighted the risk and return trade-offs inherent in different working capital strategies. Excessive working capital results in cash being tied up in accumulated inventory potentially leading to waste and theft, complacency of management efficiency and consequent loss of profits. On the other hand, inadequate working capital leads to stagnated growth, increased operating inefficiencies, and thus reduced profitability (Pandey, 2005). Precisely, a greater aggressive working capital strategy that has low investment in working capital is related with a higher return and risk; whereas a conservative strategy which deals with high investment in working capital has lower return and risk (Gitman & Zutter, 2014).

Singh and Asress (2011) have also reported that well organized working capital management has a considerable participation on performance and short-term solvency of firms. Nwankwo and Osho (2010) added that working capital management involves the adequate mixture of current assets and current liabilities for keeping the business run efficiently particularly in terms of energy, goodwill and time. No doubt, the efficient working capital management will help in generating the shareholders wealth which is main objective of survival of business. Bellouma (2010), Dong et al. (2010), Mansuri et al. (2012), and Makori et al. (2013) suggested that maintaining the proper working capital management is the best way to achieve value. Therefore, working capital

management is essential for firms' liquidity and its existence. According to Odi and Solomon (2010) working capital management deals with decisions associated with short term financing. It maintains the relationship between firm's current assets and current liabilities. The purpose of working capital management is that the firms have enough cash flow to run its operations in order to meet the short-term obligations and to maintain the level of investment in current assets (Naveed et al., 2014).

Empirical review

Abdulazeez et al. (2018) examine the impact of working capital management on the financial performance of listed conglomerate companies in Nigeria for a period of ten (10) years (2005-2014). Data for the study were quantitatively retrieved from the annual reports and accounts of the studied companies. The study employed descriptive statistics to describe the variable while the relationships among the variables were established via correlation. Variable Inflation Factor (VIF) was used to determine the existence or otherwise of multi-collinearity while Ordinary Least Square (OLS) Regression was used to analyze the data. It was found that debtors collection period, creditors payment period and firm size were negatively related to return on investment while cash conversion cycle has positive but insignificant relationship with the financial performance of the studied companies. The study however, recommends among others that listed conglomerate companies should maintain the current debtors' collection period or further reduce it in order to continue to enhance financial performance.

Micheal, Segun and Taiwo, (2017), in their study examined the impact of working capital management on financial performance of quoted consumer goods manufacturing firms in Nigeria by specifically examined the impact of working capital management on return on assets and gross operating profit. The secondary data used were obtained from annual financial statements over a period of ten (10) years from 2005 to 2014 of purposively sampled fifteen (15) firms. Descriptive statistics were used to measure variations, statistical inferences were drawn using correlation and panel regression analysis was applied on performance and working capital management indicators to test the formulated hypotheses. The findings revealed that efficient working capital management increases financial performance. In conclusion, a negative relationship exists between Cash Conversion Cycle (CCC) and financial performance while there is a positive relationship between creditors' payment period; debtors' collection period and financial performance.

Osundina (2014) examined the relationship between working capital management and profitability and focused on the quoted food and beverages manufacturing firms in Nigeria. Working capital management was measured by aggressive investment policy, account collection policy, cash conversion cycle and net operating profit was employed to measure profitability. The study made use of primary data and the results of the analysis revealed that working capital management had significant positive relationship with profitability.

In the study of Ogbuji and Ogunyomi (2014) on working capital management policy and financial performance in the Nigerian foods and beverage industry, where Nestle Nigeria Plc was the case study which covered period of five (5) years, 2008 to 2012. Working capital management was measured by cash conversion cycle and financial performance was measured by return on assets. The results revealed that a negative significant relationship existed between working capital management and profitability performance and at the same time a negative insignificant relationship do subsist between working capital management and liquidity performance.

Falope and Ajilore (2009) examined the impact of working capital management on corporate profitability of non-financial service companies quoted on the Nigerian Stock Exchange (NSE). The study examined fifty companies using data over the period 1996-2005. The study found a negative relationship between net operating profit (dependent variable) and the independent variables (average payment period, cash conversion cycle, average collection period and inventory turnover). The result also shows that firm size does not affect the financial performance.

Similarly, Muhammed (2015) examined the effects of Working Capital Management on firms' profitability: a comparative study on Middle East and West Europe companies. The result of the regression analysis showed that Debtors' Collection Periods has negative and insignificant relationship with firms' profitability. Cash Conversion Cycle has no significant relationship with firms' profitability. However, Creditors' Payment Period has significant positive relationship with firms' profitability.

Shadrack, Jane, & William, (2015) examined the effects of working capital management and financial performance of tourist hotels in Mombosa, Kenya. While Return on Investment (ROI) was used as a measure of profitability, Debtors' Collection Period, Creditors' payment period and Cash Conversion Cycle were used to measure working capital management. The correlation matrixes showed that Debtors' Collection Period and Cash Conversion Cycle have significant negative relationship with Return on Investment. However, Creditors' Payment Period has significant positive relationship with financial performance. These positions are in consonance with the study of Vincent (2012) who also found a significant negative relationship between Debtors' Collection Period, Cash Conversion Cycle and Financial Performance of manufacturing companies in Kenya.

Kulkanya (2012) examined the effect of working capital management on firm performance for companies listed on Thailand Stock Exchange using a sample size of 225 companies from 2007-2009. The study presents evidence of negative impact of receivable collection and inventory conversion periods on gross operating profit.

Mathuva (2010) examined the impact of working capital management on corporate profitability of firms in Kenya. The study analyzed a sample of 30 firms quoted on the Nairobi Stock Exchange for the periods 1993-2008 using the ordinary least square (OLS) estimation

technique. The study finds a negative impact of working capital management on firm performance. The study further shows a significant positive impact of average payment period on the performance of Kenyan firms. Sarbapriya (2011) studied the effect of working capital management on the profit performance of Indian manufacturing firms using a sample of three hundred and eleven firms. The study covered a period of 14-years. The research finds evidence of significant positive impact of working capital management on the profitability of Indian manufacturing firms.

Alipour (2011) did a study on the relationship between WCM and profitability in Iran. Cash conversion cycle was used to calculate the efficiency of WCM for the period 2001-2006 for companies listed in Tehran Stock Exchange. He selected 1063 out of 2628 companies using the multiple regression and Pearson Correlation to test the hypothesis. The result indicated that there was a negative significant relationship between accounts receivable and profitability, same with inventory and accounts payable with profitability. Furthermore, there was a negative significant relationship between cash conversion cycle and profitability. The results showed that in the studied companies, there was a significant relationship between working capital management and profitability, and WCM has a great effect on the profitability of the companies and managers can create value for shareholders by means of decreasing accounts receivable and inventory.

Shin and Soenen (2010) investigated the relationship between cash conversion cycle and the profitability of the firms for a sample of companies listed in the United States Stock Exchange during the period spanning from 1975 to 1994; the study found a significant negative relationship between the value of the companies and the cash conversion cycle of the same companies. In addition to this, Shin and Soenen (2010) intended to come up with the determinants of working capital and found that its management is correlated in a positive way to firm size. The study also established that industry concentration does not affect working capital management and that a greater compensation paid to the CEO of the firm definitely improves the company's performance.

Lazaridis and Tryfonidis (2006), Raheman and Nasr (2007), among others, measured working capital with cash conversion cycle, which consists of stockholding period, debtors' collection period and creditors' payment period. These researchers supported that greater investment in working capital (the longer cash conversion cycle) leads to reduction in the firm's profitability (Banos, Nazr & Afza, 2010).

Theoretical review

The purpose of this section is to review various theories applicable to the concept of working capital management, however for the purpose of this study two important theories relevant to the concept of working capital management are discussed below:

Pecking Order Theory

Myers (1984) explained that firms most likely prefer to finance new investments first with internally raised funds, i.e.; retained earnings, then with debt and issue equity as a final resort. Pecking order theory is believed to be an alternate theory to trade-off theory where the firm has perfect hierarchy of financing decisions. Pecking order theory elucidates that the firm tries to utilize its internal financing sources first i.e; retained earnings then issues debt and then would issue equity as a last result. Joseph, Willy and Patrick (2016) suggested that firm should use shareholders' fund to finance business operation activities before resort to borrowing. The study further recommends that internal and external business environmental factors should be considered before choice of business financing is chosen. Summarily, this study is anchored on the pecking order theory as it is directly promoting effective management of working capital and is least risky.

Cash Conversion Cycle Theory

The cash conversion cycle, which represents the interaction between the components of working capital and the flow of cash within a company, can be used to determine the amount of cash needed for any sales level. Gitman (1974) developed cash conversion cycle as part of operating cycle which is calculated by adding inventory period to accounts receivables period and then subtracting accounts payables from it. Its focus is on the length of time between the acquisition of raw materials and other inputs and the inflows of cash from the sale of finished goods, and represents the number of days of operation for which financing is needed. The CCC is a dynamic measure of ongoing liquidity management, since it combines both balance sheet and income statement data to create a measure with a time dimension (Jose and Lancaster, 1996). While the analysis of an individual firm's CCC is helpful, industry benchmarks are crucial for a company to evaluate its CCC performance and assess opportunities for improvements because the length of CCC may differ from industry to industry. Therefore, the correct way is to compare a specific firm to the industry in which it operates (Hutchinson, 2007). The cash conversion cycle is used as a comprehensive measure of working capital as it shows the time lag between expenditure for the purchase of raw materials and the collection of sales of finished goods (Padachi, 2006). Day-to-day management of a firm's short term assets and liabilities plays an important role in the success of the firm. Firms with growing long-term prospects and healthy bottom lines do not remain solvent without good liquidity management (Jose and Lancaster, 1996).

3. Methodology of the Study

The researchers adopt a qualitative research design in order to assess the effect of working capital management on business performance, data were collected from previous studies using secondary method of data collection, the relevant data for the study were collected from existing literature on the concept of working capital management as it affects business performance. The study considered the cash conversion cycle (CCC), debtors collection period (DCP) and creditors payment period (CPP) as the proxies of working capital management, various measures of financial performance were used based on the proxies used by different authors, but the study considers Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM) and

Earnings per Share (EPS). Data for the study were analysed on the basis of regression results from the empirical studies reviewed.

4. Analysis of Working Capital, Results and Findings

To maintain liquidity and avoid working capital problem that lead to business failure there is a need for comprehensive understanding of the techniques for management of firm's working capital as well as the method of interpreting the various ratios in relation to firm's working capital. This consist management of both current assets and current liabilities. To achieve the objectives of the study data were collected and analysed on the bases of cash conversion cycle, debtors' collection period and creditors' payment period.

Cash Conversion Cycle (CCC)

Managers try to keep an optimal level of the working capital while simultaneously try to manage it efficiently in order to achieve a positive value for a firm which sometimes is a difficult task (Deloof, 2003). Most of the literature has pointed out that firms attempt to manage their working capital efficiently through reducing the cash conversion cycle (CCC). Richards and Laughlin (1980) defined CCC as the net period interval between a firm's cash expenditures for the purchase of productive resources and the cash flow recovery from the product sales. By reducing the CCC, firms could create an internal fund that enhances their financial flexibility and enables the mitigation of the dependence on external financial resources. Reducing the need for external financing resources leads to the reduction of the potential costs of capital and consequently improves a firm's value (Ebben and Johnson, 2011; Almeida and Eid, 2014; Yazdanfar and Öhman, 2014). Hence, managers must take into consideration both the CCC of firms and the WCP in order to have a positive impact on a firm's cost of capital, profitability and value.

Creditors' Payment Period (CPP)

Creditors' or Average payment period refers to the time taken to pay firm's creditors. According to Deloof, (2003), delaying payments to suppliers allows a firm to assess the quality of the products bought and also the firm can reverse some cash which was to be used to pay the suppliers and use it in other operations which will maximize profits. On the other hand, Padachi, (2006) found that delaying payments to suppliers can be very costly especially if there is a trade discount for early payment and also can ruin the credit reputation for the firm in the long run. According to Afeef (2011), average payment period is the short-term liquidity measure that explains the rate at which company paid off to its suppliers. It is an independent variable and it is used as a payment of proxy policy. It is calculated by dividing account payable by purchase and multiplying with 365. Also, Afza and Nazir (2008) the average collection period is the average number of days between the date that a credit sale is made, and the date that the money is received from the customer. The average collection period is also referred to as the days' sales in accounts receivable.

Debtors' Collection Period (ACP)

According to Mathuva (2010), average collection period is approximately the time that business takes to received payments owed by it. It is an independent variable that is used as a proxy for collection policy. It is calculated by dividing account receivable by net credit sale and multiplying with 365. The average collection period is the average number of days between the date that a credit sale is made, and the date that the money is received from the customer. The average collection period is also referred to as the days' sales in accounts receivable. The average collection period can be calculated as follows: 365 days in a year divided by the accounts receivable turnover ratio. An alternate way to calculate the average collection period is: the average accounts receivable balance divided by average credit sales per day. The average collection period ratio, often shortened to "average collection period" is also referred to as the "ratio of days to sales outstanding." According to Brigham and Houston (2003), it is the average numbers of days it takes a company to collect its accounts receivable. In other words, this financial ratio is the average number of days required to convert receivables into cash.

According to Mekonnen (2011), average collection period is a measurement of the average number of days that it takes a business to collect payments from sales that were made on credit. Businesses of many kinds allow customers to take possession of merchandise right away and then pay later, typically within 30 days. These types of payments are considered accounts receivable because a business is waiting to receive these payments on an account. Accounts receivable are an asset, or something a business owns or is owed. According to Biger, Gill and Mathur (2012), average collection period is the average number of days required to collect invoiced amounts from customers. The measure is used to determine the effectiveness of a company's credit granting policies and collection efforts.

Based on the foregone, it is important to note that the most important aspect of working capital management are related to management of cash conversion cycle, debtors collection period and creditors payment period and as a result the study review regression results from empirical evidence particularly as regard to the above mention factors.

Table 1

Results from empirical studies

Author's Name	Country	Sample size	Period	Measure of financial performance	Measure of working capital management	Relationship
Micheal, Segun & Taiwo (2017)	Nigeria	15 firms	2005-2014	ROA	CCC, DCO, &CPP	-sig CCC, +sig DCP & CPP

Abdulazeez et al. (2018)	Nigeria	Listed conglomerate	2005-2014	ROI	CCC, DCP & CPP	-sig DCP & CPP +sig CCC
Eya, (2016)	Nigeria	Nestle Nig. Plc.	2004-2013	ROA	Current R. & Acid Test R.	+sig CR & ATR
Osundina, (2014)	Nigeria	Quoted foods and beverages		Net operating profit	DCP, CCC	+sig DCP & CCC
Lazaridis & Tryfondis, (2006)	Nigeria	Listed manufacturing firms	2000-2004	NPM	CCC, DCP & CPP	-sig CCC +sig DCP & CPP
Akoto, Agunyo-victor & Angmor, (2013)	Ghana	Listed manufacturing firms	2005-2009	ROA	CCC, DCP & CR	-sig DCP +sig CCC & CR
Jane & William, (2015)	Kenya	Tourist hotels in Monbassa		ROI	CCC, DCP & CPP	-sig CCC & DCP +sig CPP
Alipour, (2011)	Iran	1063 companies listed in Tehran stock exchange	2001-2006	ROA	CCC & Inventory turnover	-sig CCC & IT
Francis, (2015)	Kenya		2006-2010	Operating profit	CCC	-sig CCC
Mabandla & Makoni, (2019)	South Africa	12 listed foods and beverages companies	2007-2016	ROA	DCP & CPP	-sig DCP +sig CPP
Gill et al. (2010)	United States	88 companies listed on New York stock exchange	2005-2007	Gross operating profit	CCC	+sig CCC
Afrifa et al. (2014)	United Kingdom	1128 listed small and medium scale enterprises	2007-2014	Tobins Q ratio	CCC, DCP, CPP &	+sig CCC, DCP, CPP & IHP
Yazdanfar & Ohman, (2014)	Sweden	SME firms	2008-2011	ROA	CCC	-sig CCC
Gul et al. (2013)	Pakistan	SME firms	2006-2012	ROA	CCC	-sig CCC
Zariyawatl et al. (2009)	Malaysia	148 Nonfinancial firms	1996-2006	ROA	CCC	-sig CCC

Garanina & Petrova, (2015)	Russia	720 firms from services and production sectors	2001-2012	ROA	CCC	-sig CCC
Muscettola, (2015)	Italy	4226 manufacturing SME's	2007-2010	Net profit margin	CCC	+sig CCC
Ukaegbu, (2014)	South Africa, Nigeria, Egypt and Kenya	Industrial firms	2005-2009	Net operating profit	CCC	-sig CCC
Jakfar el al. (2017)	Malaysia	164 manufacturing firms	2007-2011	ROA	CCC	-sig CCC
Charitou et al. (2012)	Indonesia	All firms listed in the Indonesian stock exchange	1998-2010	ROA	CCC	+sig CCC

Source: compiled by authors

Discussion of Findings

From table 1, the review of the empirical studies show that most of the authors used cash conversion cycle as proxy of working capital management and Return on Assets to represent financial performance even though some of the authors consider other variables like Debtors collection period, creditors payback period to represent working capital management and return on capital employed, net profit margin, net operating profit, earnings per share, Tobins Q ratio, gross profit margin and return on investment to represent financial performance. However, their regression results mainly indicate a significant negative relationship between the cash conversion cycle; debtors' collection period and financial performance, meaning that the firms are required to maintain an optimum cash conversion cycle and debtor's collection period because as firms cash conversion cycle and debtors' collection period grow high it will lead to lower profitability or financial performance. On the other hand, the regression results of most of the empirical studies reviewed shows a significant positive relationship between creditors' payment period and various proxies of financial performance meaning that the firms are required to have a reasonably creditors payback period as it led to an improved financial performance particularly in the short run.

In line with the findings of the study we should therefore reject the null hypothesis which state that cash conversion cycle, debtors collection period and creditors payment period has no significant effect on business financial performance, because the findings of the study shows that the cash conversion cycle and debtors' collection period have a significant negative effect on business

performance while creditors payment period has a significant positive impact on firms performance.

5. Conclusion and recommendations

From the analysis carried out it is therefore obvious that working capital analysis and some financial ratio analysis could be used as tools for managerial decision making regarding working capital management as well as the evaluation of business performance.

Thus, the application of financial ratios will help the management to ascertain its performance and help them make decisions based on the results of the previous years during a particular period. The strength and weakness of such business will be pointed out which of course will help prompt corrective measures. By so doing working capital management will be enhanced. In the same vein, the study concludes that the higher the cash conversion cycle and debtors' collection period the lower the business performance, meaning that the cash conversion cycle and debtors' collection period plays an important role in determining business performance as it can lead to increase or decrease in business profitability. On the other hand, the study also concludes that the higher the creditors' payment period the higher the business performance as it helps to improve profitability.

Considering the several problems faced by business organization due to liquidity problems and lack of proper management of current assets and current liabilities the following recommendations will be of immense benefit to the management of working capital in business organizations.

1. The staff should be further enlightened about the importance of effective working capital management to a business by the management. They should be made to understand that good management of working capital is part of good financial management and that a business cannot operate effectively unless the working capital is adequate.
2. Business owners should acknowledge the fact that as their operations or business expands, the working capital should be increased to meet the day to day running of the business.
3. The business should set and maintain clearly defined standards, which will serve as a policy on improving the working capital requirement from time to time.
4. The business should also maintain an optimum cash conversion cycle and Debtors' collection period as high cash conversion cycle and debtors' collection period lead to lower profitability and business performance.
5. The individual components of working capital can be effectively managed by using various techniques, and strategies. Ratio analysis can be used to monitor overall funds in working capital and to identify areas requiring management attention.
6. Business should also maintain a reasonable high creditor's payment period because the creditors money withheld form part of firms' working capital and can be invested to improve profitability.

7. Careful attention should be given in selecting the working capital policy to be adopted so that the business will choose the appropriate policy that will match with its financial needs and complexities.

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