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Working Capital Management and Organizational Performance

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Abstract
The study examined the working capital management and firm performance in Nigeria. Random sampling technique was employed in determining the sample size, furthermore the research design adopted is survey research design which involves comparative analysis of the variables which are working capital management and firm performance and were represented with proxies such as return on asset, return on equity, and net profit margin, The research instrument was processed manually through coding and run electronically using regression method of Statistical Package for Social Sciences (SPSS) to analyse the information from the financial statement. Result from the study indicated that Firm's size and current ratio has positive and significant effect on firm performance. Also managers should create value for their shareholders by reducing the number of day's account receivable and increasing the accounts payment period and inventories to a reasonable maximum. Base on this, the study advised that manufacturing firms should improve their stock management in order to tie up less cash inventories, secondly, manufacturing firms should source for long term funds to replace short term borrowings and build up cash reserves, and lastly, manufacturing firms should embrace a dividend policy that retains profits within the company.

Keywords*:* Working Capital Management, Firm performance, Average Collection Period, Inventory Conversion Period, Nigeria

Introduction

Working capital management of a firm has been recognized as an important area in financial management. The main goal of working capital management is to teach and keep an optimized balance between each component of working capital (Gitman, 2009). Traditional concept of working capital is the difference between current assets and current liabilities, which does not provide an accurate concept of corporate liquidity. Every organization whether profit oriented or not and irrespective of size and nature of the business requires necessary amount of working capital. Working capital is the most crucial factor for maintaining liquidity, survival, solvency and profitability of business (Mukhopadhyay, 2004). All individual components of working capital include cash, marketable securities, account receivables and inventory management play a vital role in the performance of any firm.

In the management of working capital, the firm is faced with two key questions. First, given the level of sales and the relevant cost considerations, what are the optimal amounts of cash assets, account receivable, and inventories that a firm should choose to maintain? Second, given these optimal amounts, what is the most economical way to finance these working capital investments? To produce the best possible returns, firms should keep no unproductive assets and should finance with the cheapest available sources of funds.

Firm performance is a composite assessment of how well an organization executes on its most important parameters, typically financial, market and shareholder performance. It is a subset of business analytics /business intelligence that is concerned with the health of

the organization, which is traditionally measured in terms of financial performance. However, in recent years, the concept of corporate health has become broader.Liquidity and profitability are two important and major aspects of corporate business life. The problem is that increasing profits at the cost of liquidity can bring serious problems to the firm. Therefore, there must be a trade-off between the liquidity and profitability of firms. One of these should not be at the cost of the other because both have their own importance. If firms do not care about profit, they cannot survive for a longer period. Also, if firms do not care about liquidity, they may face the problem of insolvency or bankruptcy. For these reasons, managers of firms should give utmost consideration for working capital management as it does ultimately affect the profitability of firms. As a result, companies can achieve maximum profitability and can maintain adequate liquidity with the help of efficient and effective management of working capital.

Hence, lack of proper research study and utilization of the working capital for the improvement of corporation in terms of performance in Nigeria has constituted the problem of limited awareness in relation to working capital to increase firms' performances. Hence, there is the need to study the effect of working capital to enhance the performance of corporations in Nigeria.

The main objective is to examine the impact of working capital management andfirm performance in Nigeria

The specific objectives include:

1. To examine the impact of average collection period on firms' performance in Nigeria.
2. To examine the impact of inventory conversion period of firms' performance in Nigeria.
3. To examine the impact of average payment period on firms' performance in Nigeria.
4. To examine the impact of cash conversion cycle on firms' performance in Nigeria.

In order to address the major issues underlining the research, an attempt has been made to provide answers to the following questions:

1. What is the impact of average collection period on firm performance in Nigeria?
2. What is the impact of inventory conversion period affect firms' performance in Nigeria?
3. What is the impact of average payment period on firm's performance in Nigeria?
4. What is the impact of conversion cycle affect firms' performance in Nigeria?

The following research propositions were formulated for the study:

H_{01}: Average collection period has no significant impact on firms' performance in Nigeria
H_{02}: Inventory conversion period has no significant impact on firms' performance in Nigeria
H_{03}: Average payment period has no significant impact on firms' performance in Nigeria
H_{04}: cash conversion cycle has no significant impact on firms' performance in Nigeria

Review of Related Literature

Concept of Working Capital Management

So many definitions have arisen for working capital management some of which are highlighted below.Working capital management is the administration of current assets and current liabilities. Effective management of working capital ensures that the organization is maximizing the benefits from net current assets by having an optimum level to meet working capital.

Kulkanya (2012) define working capital management as the administration of current assets in the name of cash, marketable securities, receivables and staff advances, and inventories. Adina (2010) demonstrates that good working capital management must ensure an acceptable relationship between the different components of a firm's working capital so as to make an efficient mix, which will guarantee capital adequacy. Therefore, working capital management should make sure that the desirable quantities of each component of the working capital are available for management.

Working capital management is defined by Kehinde (2011), as the management of investment in current assets and the financing of the current assets, and involves setting working capital management policy and carrying out that policy in a business's daily operations, to achieves its goals and objectives, such as shareholder wealth maximization, Competitive advantage, and growth. According to Kehinde (2011), if performance criteria such as liquidity, solvency/bankruptcy, efficiency, profitability and Economic Value Added are considered, it will be clearly apparent that the business must hold and manage the different levels of working capital which are appropriate to its performance criteria. Sharma and Satish (2011), see working capital management from efficiency perspective and can be measured and achieved through the cash conversion efficiency, days operating cycle and days working capital.

Working capital management involves, the process of managing the activities and processes related to working capital (Vedavinayagam, 2010). The aim is to ensure that there are checks and balances to ensure that the amount of cash flowing into the business is enough to sustain the company's operations. This must be an ongoing process that must be evaluated using the current level of assets and liabilities. Working capital management may involve implementing short- term decisions that may or may not carry over from one financial period to the next, (Kesseven, 2006).

Padachi (2006) the following are the principles of working capital management:

(i) **Principles of the risk variation**: Risk here refers to the inability of firm to maintain sufficient current assets to pay its obligations. If working capital is varied relative to sales, the amount of risk that a firm assumes is also varied and the opportunity for gain or loss is increased. In other words, there is a definite relationship between the degree of risk and the rate of return. As a firm assumes more risk, the opportunity for gain or loss increases. As the level of working capital relative to sales decreases, the degree of risk increases (Padachi, 2006). When the degree of risk increases, the opportunity for gain and loss also increases. Thus, if the level of working capital goes up, amount of risk goes down, and vice-versa, the opportunity for gain is like-wise adversely affected.

(ii) **Principle of equity position**: According to this principle, the amount of working capital invested in each component should be adequately justified by a firm's equity position. Every naira invested in the working capital should contribute to the net worth of the firm.

(iii) **Principle of cost of capital**: This principle emphasizes that different sources of finance have different cost of capital. It should be remembered that the cost of capital moves inversely with risk. Thus, additional risk capital results in decline in the cost of capital.

(iv) **Principle of maturity of payment**: A company should make every effort to relate maturity of payments to its flow of internally generated funds. There should be the least disparity between the maturities of a firm's short-term debt instruments and its flow of internally generated funds, because a greater risk is generated with greater disparity. A margin of safety should, however, be provided for any short-term debt payment.

Operating Cycle: The duration of time required to complete the following sequence of events, in case of manufacturing firm, is called the operating cycle:

1. Conversion of cash into raw materials
2. Conversion of raw materials into work-in-progress.
3. Conversion of work in process into finished goods.
4. Conversion of finished goods into debtors and bills receivables through sales.
5. Conversion of debtors and bills receivables into cash.

Concept of Firm performance: Firm performance is a composite assessment of how well an organisation executes on its most important parameters, typically financial, market and shareholder performance.

Firm performance analysis is a subset of business analytics/business intelligence that is concerned with the health of the organization, which has traditionally been measured in terms of financial performance. However in recent years, the concept of corporate health has become broader. Like the concept of business sustainability, corporate health is now considered to involve not only financial considerations but also other factors including social responsibility and reputation, innovation, employee morale and productivity. As such, performance is no longer measured only on key performance indicators (KPI) such as revenue, return on investment (ROI), overhead and operational costs.

Firm performance management (CPM) has expanded beyond forecasting, budgeting and planning and performance results are often shared publicly rather than only with financial stakeholders and investors, as was formerly the case. Non-financial areas monitored for firm performance management and reporting include strategic planning, process efficiencies, brand equity, risk management and human resource management (HRM) (Wigmore, 2015).

According to Zayyad Abdul-Baki (2014), Performance measure entails comparing actual results with an established standard. For example, the comparison of actual results with standards as in variance analysis or actual results with budgets as in budgetary control system or comparison of a company's financial ratios with the industry average as in ratio analysis or comparing a company's performance with best practices as in benchmarking.

1. Measures of Firm Performance

Some of the methods that used to evaluate and assess overall firm performance are: balanced scorecard and stakeholder measures. Research about the listed methods will help in comparing the advantages and limitations of using them in measuring firm performance. Also this research will help managers in deciding what measures is best to adopt, regarding the strategies they are pursuing.

2. Balanced Scorecard

The balanced scorecard is a strategic planning and management system which takes into account non-financial aspects of firm performance, such as customer satisfaction and

business processes, to create a complete picture of how the company is likely to perform in the future. For example, reducing the level of customer service may boost current earnings, but the balanced scorecard approach would also take into account potential loss of future earnings due to poor customer satisfaction (SamahAdra, 2010)

Theoretical Framework

Several theories have been used to explain and emphasise the analysis of working capital theories and linkages to concepts and components. Some of these theories are stated below

Agency Theory

An agency relationship could be defined as one, where one or more persons (being referred to as the principal(s) engages another (the agent) to perform some tasks or service on their behalf which has to do with delegating some authority in terms of decision making (Jensen & Mecking, 1976). In a sum, it is easy to say that an agency relationship has arisen between the parties, when the first party designated as the Agent is contracted to Acts for, or at least on behalf of, or as a representative for the other, designated the principal, in a domain of decision problem (Ross, 1973). Agency theory has been one of the most important theoretical paradigms in finance and accounting during the past years. The primary features that made agency theory attractive to researchers in the field of finance, economics and accounting is that it explicitly allows us to incorporate conflict of interest, incentive problems and even the mechanisms for controlling problems associated with incentives into our models.

Risk and Return Theory

The risk and return theory is one of the most important theories in the field of portfolio management. The risk and return relationship has received considerable attention from researchers in business, economics and finance (Mukherji, Desai &Wright, 2008). Furthermore, every decision with respect to investment is based on risk and return relationship (Richard, Stewart & Franklin, 2008). Relating to that, two conflicting attitudes are always associated with the risk. That is, the risk-seeking behaviour and the risk aversion. Risk seekers always prefer choices involving a higher potential loss / or a greater probability of a loss and of course with a strong notion of over estimating gains. The main focus of risk-seekers is on the opportunities for gain. Conversely, risk-averters are completely opposite of risk seekers, in the sense that they (risk averters) over estimate losses and underestimate gains.

The Link: However, in order to integrate the risk and return theory in working capital management, it is imperative to stress that one of the cardinal decisions in working capital management is the trade-off between liquidity and profitability. If a firm chooses to be liquid it should be at the expense of the profit and vice-versa. Any of these two conflicting decisions may result in either of excess or shortage of the components of working capital and the current assets of a business.

Empirical Framework

Average Collection Period and Firm performance

A study by Hanson and Omar (2008) on average collection period and organizational productivity in selected firms in turkey reveals that there is a significant relationship

between average collection and organizational productivity. The study shows a negative relationship between average collection period and organizational productivity which implies that the lower the average collection period the higher the productivity and vice versa. Return on assets means how much a firm generates profits and effectiveness with given resources.

Inventory Conversion Period and Firm performance

According to Ahsen, Faisal Mehmood and Muhammad (2011) in their study of inventory conversion period, they advised the selected sector company's managers that the managers can obtain good margin of profits through proper and excellent managing their company's inventory, accounts or debtors' conversion period, account payables days. A study by Larry and Portal (2004) reveals that both inventory and cash conversion period are the core concern of the company's working capital management. Also, inventory is expected to have significant Impact on company's cash conversion cycle. Cash conversion cycle might have both positive and negative effect on the company profitability, for instance, while a company with ling cash conversion cycle might have higher sales because of long credit term given to trade credit customers, high cost of investment in working capital might decrease profitability as well. Deloof (2003) found a significant negative relation between gross operating income and number of day's inventories. This explains that an increase of the inventories is an effect from a decrease in sales which leads to lower profit for the companies.

Average Payment Period and Firm performance

Khaliff and Ahmed (2001) carried out a study on average collection period and firm performance, the study shows a significant relationship between average payment and firm performance. Lazaridis and Tryfonidis (2006) find the negative relationship between number of day's accounts receivables and profitability measured by gross operating profits. This negative results demonstrated that companies can increase their profitability by decreasing profit terms given to their customers. Deloof (2003) find the significant negative relation between the average number of day's account receivable and gross operating income as a measure of profitability. Boisjoly (2009) provide the evidence that companies have focused on improving the management of account receivable as their accounts receivable turnover increase over the fifteen years' time period for 1990-2004.several technique can be applied such as strengthening their collection procedures, offer cash discount and trade credit, and use receivable factoring (Boijoly, 2009).

Cash Conversion Cycle and Firm Performance:

Cash conversion cycle, accounts receivable period and inventory period are used to measure the effects of working capital management; return on assets is used as a profitability measure. Results from regression analysis shows that profitability has a significant negative relation inventory period. Lazaridis and Tryfonidis (2006) find the negative relationship between cash and conversion cycle and profitability measured by gross operating profit. The researchers explained this negative results as a shorter cash conversion cycle will generate more profit for the company/ Nimalathasan (2010) found that cash conversion cycle and return on assets are negatively correlated, also he stated that when cash conversion cycle increase that cause for decrease return on assets. He pointed in his study that an increase in number of days in cash conversion cycle even by one day, that is associated with a decrease by 5.03% in return on assets of selected listed manufacturing companies in Sri Lanka. Also he has suggested that to managers of selected companies to his study, they can increase their

companies' profitability by reducing the number of days on inventories conversion cycle and accounts receivable, through his results

Methodology

The research design adopted secondary data which involves comparative analysis of the variables which are working capital management and firm performance and were represented with proxies such as return on asset, return on equity, and net profit margin. The data obtained from these variables were then analysed using multiple regression analysis.

The population comprises of companies listed on the Nigerian Stock Exchange (NSE) in the manufacturing sector of the economy. Information obtained from the official listing of Nigerian Stock Exchange showed that there are (42) listed manufacturing companies in Nigeria. However five (5) companies have been selected for this study.In this work, simple random sampling technique was employed in determining the sample size to be used which adequately represents the population. The companies are Guinness Plc, Dangote Plc, Nestle Plc, Cadbury Plc and Unilever Plc.

Data were collected from the financial statements of the selected firms and from the publications of the Nigerian Stock Exchange from 2011 to 2018. The data sourced were analyzed using the descriptive statistics and the multiple regression analysis

The research instrument was processed manually through coding and run electronically using Statistical Package for Social Sciences (SPSS) to analyse the information from the financial statement. The hypotheses of the study were evaluated by using REGRESSION

Analysis

Model specification

The regression model is expressed as

Model Specification

ROA= f(ACP,ICP, APP, CCC, CR, DR, SIZE)

Where ROA= return on asset

ACP= average collection period

ICP= inventory conversion period

APP= average payment period

CCC= cash conversion cycle

CR= current ratio

DR= debt ratio

SIZE= size of the firm in terms of total asset.

Data Analysis and Interpretation of Result

Results and Discussion

Table 1: Descriptive Statistics

	ROA	ACP	ICP	APP	CCC	CR	DR	SIZE
Mean	0.182	62.013	191.872	120.705	104.892	2.751	0.257	15.999

Median	0.185	61.168	202.468	139.495	114.829	2.795	0.244	15.997
Maximum	0.194	69.638	207.018	150.314	145.216	2.896	0.377	16.578
Minimum	0.168	53.976	133.434	18.516	56.300	2.534	0.210	15.310
Std. Dev.	0.011	5.432	28.718	50.989	32.485	0.129	0.061	0.433
Skewness	-0.327	-0.011	-1.764	-1.649	-0.412	-0.737	1.459	-0.311
Kurtosis	1.528	2.184	4.156	3.940	1.931	2.365	3.649	2.353
Jarque-Bera	0.649	0.167	3.444	2.941	0.455	0.644	2.235	0.201
Probability	0.023	0.020	0.009	0.229	0.096	0.005	0.327	0.004
Sum	1.089	372.076	1151.234	724.230	629.350	16.504	1.542	95.994
Sum Sq. Dev.	0.001	147.511	4123.656	12999.70	5276.502	0.083	0.019	0.938

Table 1 presents the summary of the descriptive statistics of variables used in the study for the selected firms between the periods considered. The mean value of return on asset (ROA) is 18.15% with standard deviation of 1.1%. The mean average collection period is 62 days (2 months) with standard deviation of 5 days. On average, the firms take 192 days (approximately 6 months, 2 weeks) to convert their inventories into sales with a standard deviation of 29 days. The table also shows that the firms on the average take 121 days (4 months) to pay its creditors with a standard deviation of 51 days. The mean cash conversion cycle is 105 days (3 months, 2 weeks) with standard deviation of 32 days. The table further showed that the firms on the average have a current ratio of 2.751 and debt ratio of 25.7%. The Table further showed that an average firm has a size of 15.99 as measured by the natural logarithms of its assets.

Table 2: Regression Result of the Impact of Average Collection Period on Firm performance of Some Selected Quoted Manufacturing Firms

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0.196435	0.361061	0.544050	0.6828
ACP	-0.000195	0.002812	-0.069477	0.9558
CR	0.112612	0.072916	1.544416	0.3658
DR	-0.062131	0.236517	-0.262692	0.8365
SIZE	0.020183	0.013012	1.551126	0.3646
R-squared	0.178143	Mean dependent var		0.181500
Adjusted R-squared	0.010715	S.D. dependent var		0.010784
S.E. of regression	0.008418	Akaike info criterion		-6.842022
Sum squared resid	7.09E-05	Schwarz criterion		-7.015555
Log likelihood	25.52607	Hannan-Quinn criter.		-7.536692
F-statistic	1.801584	Durbin-Watson stat		1.901972
Prob(F-statistic)	0.062352			

Model 1 tested the hypothesis that there is no significant relationship between ACP and ROA. The regression result indicate that the coefficient of ACP with negative with -.000 and has no significant impact on ROA ($p>.05$). Thus, the null hypothesis (H_0) is accepted

that average collection period has no significant impact on firm performance of the firms. This implies that short ACP is good for explaining the firm performance of the firms, but it is not a good factor to consider when taking decision about firm performance in the long run. Other variables included such as current ratio and firm's size positively influenced firm performance but not significant (p>.05). Debt ratio has an adverse and insignificant effect on firm performance.

The model has an R-squared of 17.8%, which implies that 17.8% variation in firm performance is explained by the independent variables included in the model. The model has an F-statistic value of 1.80 and the probability value of F stood at 0.02, which is less than the standard .05. This implies that the joint influence of the independent variables on firm performance is statistically significant.

Table 3: Regression Result of the Impact of Inventory Conversion Period on Firm performance of Some Selected Quoted Manufacturing Firms

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.082343	0.458090	-0.179753	0.8868
ICP	0.000388	0.000669	0.580244	0.0053
CR	0.054836	0.099164	0.552988	0.6784
DR	0.026762	0.136774	0.195668	0.0108
SIZE	0.030144	0.020647	1.459963	0.0412
R-squared	0.308396	Mean dependent var		0.181500
Adjusted R-squared	0.041981	S.D. dependent var		0.010784
S.E. of regression	0.007298	Akaike info criterion		-7.127398
Sum squared resid	5.33E-05	Schwarz criterion		-7.300931
Log likelihood	26.38219	Hannan-Quinn criter.		-7.822068
F-statistic	8.479144	Durbin-Watson stat		1.975951
Prob(F-statistic)	0.040129			

Model 2 tested that there is significant relationship between inventory conversion period and firm performance. The regression results shows a positive relationship between ICP and ROA, which is significant (p<.05). Thus, the alternative hypothesis (H_1) is accepted that ICP has significant impact on firm performance of firms. This implies that maintaining high inventory levels reduces the cost of possible interruptions in the production process and loss of business due to scarcity of products. Maintaining high levels of inventories also helps to reduce the cost of supplying the products and protects firms against price fluctuations.
Current ratio, debt ratio and firm size were found to positively impact on firm performance. The model has an R-squared of 30.8% with an F-value of 8.479 which is significant (p<.05).

Table 4: Regression Result of the Impact of Average Payment Period on Firm performance of Some Selected Quoted Manufacturing Firms

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.244615	0.080274	3.047251	0.2019
APP	7.352305	4.076377	1.803637	0.0223
CR	0.099558	0.020779	4.791166	0.1310
DR	0.043569	0.030049	1.449902	0.3844
SIZE	0.014426	0.006714	2.148550	0.2773

R-squared	0.171210	Mean dependent var	0.181500
Adjusted R-squared	0.056052	S.D. dependent var	0.010784
S.E. of regression	0.004092	Akaike info criterion	-8.284856
Sum squared resid	1.67E-05	Schwarz criterion	-8.458390
Log likelihood	29.85457	Hannan-Quinn criter.	-8.979526
F-statistic	8.433688	Durbin-Watson stat	1.425970
Prob(F-statistic)	0.032070		

Model 3 tested the hypothesis that there is a significant relationship between average payment period and firm performance. The coefficient of ACP shows a significant positive relationship between APP and ROA ($p<.05$). The alternative hypothesis is accepted that average payment period has significant impact on firm performance. This suggested that an increase in the number of day's account by one day is linked with an increase in performance.

Current ratio, debt ratio and firm's size positively, but insignificant affected firm performance. The model has an R-squared of 17.1% with an F-value of 8.433, which is significant ($p<.05$).

Testing of Hypotheses

Hypothesis 1

H_0: Average collection period has no significant impact on firms performance in Nigeria

H_1: Average collection period has a significant impact on firms performance in Nigeria

Computation

The test statistics is computed by SPSS software and the result are as shown in table 4.6

Table 4: Regression Result of the Impact of Average Collection Period on Firm Performance

Variable	Coefficient	t-test statistic	Prob
ACP	-0.000195	-0.069477	0.0558

Source: Extracted from Table 4 (SPSS Computations)

Decision

Model 1 tested the hypothesis that there is no significant relationship between ACP and ROA. The regression result indicate that the coefficient of ACP with negative with -.000 and has no significant impact on ROA ($p>.05$). Thus, the null hypothesis (H_0) is accepted that average collection period has no significant impact on firm Performance.

Null Hypothesis 2:

H_0: Inventory conversion period has no significant impact on firms performance in Nigeria

H_1: Inventory conversion period has significant impact on firms performance in Nigeria

Computation

The test statistics is computed by SPSS software and the result are as shown in table 4.7 below,

Variable	Coefficient	t-test statistics	Prob

ICP	0.000388	0.580244	0.0053

Source: Extracted from Table 4 (SPSS Computations)

Decision

Model 2 tested that there is significant relationship between inventory conversion period and firm Performance. The regression results shows a positive relationship between ICP and ROA, which is significant (p<.05). Thus, the alternative hypothesis (H1) is accepted that ICP has significant impact on firm Performance.

Null Hypothesis 3

H_0: Average payment period has no significant impact on firms performance in Nigeria
H_1: Average payment period has significant impact on firm's performance in Nigeria

Computation

The test statistics is computed by SPSS software and the result are as shown in table 4.8 below

Source: Extracted from Table 4 (SPSS Computations**)**

Variable	Coefficient	t-test statistics	Prob
APP	7.352305	1.803637	0.0223

Decision

Model 3 tested the hypothesis that there is a significant relationship between average payment period and firm Performance. The coefficient of ACP shows a significant positive relationship between APP and ROA (p<.05). The alternative hypothesis is accepted that average payment period has significant impact on firm Performance.

Null Hypothesis 4:

H_0: Cash conversion cycle has no significant impact on firm's performance in Nigeria
H_1: Cash conversion cycle has significant impact on firm's performance in Nigeria

Computation

The test statistics is computed by SPSS software and the result are as shown in table 4.9 below

Variable	Coefficient	t-test statistics	Prob
CCC	-0.000170	-3.549126	0.0048

Source: Extracted from Table 4.5 (SPSS Computations)

Decision

Model 4 tested that there is a significant relationship between CCC and firm Performance. The regression coefficient of CCC stood at -.00, which is significant. Thus, the alternative hypothesis is accepted that cash conversion cycle (CCC) has significant impact on firm Performance.

The study summarizes its findings as follows:

1. Average collection period has no significant impact on firm performance (p>.05).
2. Inventory conversion period has significant positive impact on firm performance (p<.05).
3. Average payment period has significant positive impact on firm performance (p<.05).
4. Cash conversion cycle has significant negative impact on firm Performance (p<.05).

Conclusion

The concept of working capital management addresses companies' managing their short-term capital. The goal of working capital management is to promote a satisfying liquidity, profitability and shareholders' value. Most of the Nigerian manufacturing firms have large amount of cash invested in working capital. It can therefore be expected that the way working capital is managed will have significant impact on their firm performance. The study concludes that managers can create value for their shareholders by reducing the number of day's account receivable and increasing the accounts payment period and inventories to a reasonable maximum.

Recommendations

Based on the findings of the study, the following recommendations are suggested to manufacturing firms on how to improve their level of working capital management, and their firm performance.

1. A longer credit period should be allowed for manufacturing firms to achieve better firm performance via profitability.
2. Manufacturing firms should improve their stock management in order to tie up less cash inventories.
3. Manufacturing firms should source for long term funds to replace short term borrowings and build up cash reserves.
4. Manufacturing firms should source for long term funds to provide funds for both future capital asset investment and the increased recurrent working capital investment.

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