

WORKING CAPITAL MANAGEMENT AND FINANCIAL PERFORMANCE OF LISTED MANUFACTURING COMPANIES IN NIGERIA

¹Essiet, Victor Eniema and ²Wokeh, Promise Ikechi Phd

¹Department of Accountancy, Nigeria University, Port Harcourt.

²Department of Accounting, Ignatius Ajuru University of Education, Port Harcourt

ABSTRACT

The study was conducted to investigate the relationship between working capital management and financial performance of small and medium scale businesses in Nigeria. The study used secondary data which were analyzed using Statistical Package for Social Sciences (SPSS) version 21. Hypotheses were tested using Ordinary Least Square (OLS) Analysis at a significant level of 0.05. Hypothesis one and three tested showed that there is a significant relationship between average collection period and earnings per share of small and medium scale enterprises in Nigeria. The findings also reveal that there is a significant relationship between average payment period and earnings per share of small and medium scale enterprises in Nigeria. Hypothesis two and four tested showed that there is a significant relationship between average collection period and return on capital employed in Nigeria. The findings also showed that there is a significant relationship between average payment period and return on capital employed of small and medium scale enterprises in Nigeria. Based on these findings, the following recommendations were made: The management of small and medium scale enterprises in Nigeria should exhibit carefulness in handling of inventory at least to ensure that their inventory level will not be below the minimum Inventory level. Reduce the time at which customers make payments to the company for goods bought. Professionals should be hired by these companies to ensure effective and efficient working capital management. Much attention should be paid to cost of sales to ensure that it will not negatively affect prices of stock.

KEYWORDS: *Working Capital Management, Financial Performance, average Payment Period, Average Collection Period.*

INTRODUCTION

The growth of a business entity depends on a lot of factors and one of such is the ability of the firm to use its current or short-term assets to meet its short-term liabilities (Harries, 2005). Working capital management focuses on promoting satisfying liquidity, profitability and shareholders' value (Makori & Jagongo, 2003). Niresh (2012) opines that working capital management is a crucial element in determining the financial performance of an organization. He posited that it is a concept that ensures the ability of the firm to fund the difference between short-term assets and short-term liabilities. Working capital refers to management of current assets and current liabilities. Horne and Wachowite, (2000) asserts that working capital management is crucial in manufacturing firm since part of their major assets is composed of current assets, as directly affect the profitability and liquidity of firm (Rahemam & Nasr, 2007).

An improper management of component of working capital that is, account receivables, account payables, and inventories will result to the difficulties in firm's continued operation and however will also affect the market value of such firm (Ogundipe, Idowu & Ogundipe, 2012). Makori and Jagongo (2013) stated that working capital is regarded as the result of the time lag between the expenditure for the purchases of raw material and the collection for the sale of the finished goods. And its management can have a significant effect on both liquidity and profitability of the company (Shin, & Soenen, 1998, Soenen, 1993). Brigham (1980) asserts that liquidity is the ease with which a company can turn its current assets into cash. Liquidity is an offshoot of working capital because cash is a component of current assets. Horne (2010) opined that linear relationship subsists between liquidity and profitability in line with the performance of the firm especially when the manufacturing outfit has to make frequent and timely disbursement to the various stakeholders.

The management of working capital affects the financial performance of a firm especially the manufacturing firms. This is because working capital shows the strength and degree of solvency of the business. The ratio shows the extent to which the claim of creditors can be quickly meet. A low ratio indicates that too much capital is tied up in stocks. Free cash flow is a key influence of shareholders value hence, companies particularly in the current difficult economic times are targeting working capital in order to lock cash invested in the business and invest in areas of higher value added returns (Mukhopadhyay, 2004). In as much as profit maximization is the aim of every business, maintaining liquidity of the firm also is crucial. Increasing profit at the cost of liquidity can bring serious problems to firm, hence, a firm must adopt a strategy where a balance will be maintained between these two objectives, and this is of course a challenge in working capital management (Smith, 1980, Reheman & Nasr, 2007). Working capital management is one of the most important areas while making liquidity and profitability comparisons among firms (ELjelly, 2014).

The theory of risks and return has it that investment with more risk will result to more return. Hence firms with high liquidity of working capital may have low risks and low profitability. Conversely a firm that has low liquidity of working capital faces high risk which results to high profitability. In Nigeria, manufacturing companies play a significant role in the economy as it employs not less than 80% of the labour force of the country and as such whatever affects the manufacturing companies automatically affects the economy.

The idea of working capital management addresses companies' managing of their short-term capital and therefore the goal of the management of capital is to ensure a satisfying liquidity, profitableness, and shareholders' worth. Capital management means the ability to regulate effectively and expeditiously current assets and current liabilities in a manner that provides the firm with most funds on its assets and minimizes payments for its liabilities. A well-managed capital promotes a company's welfare on the market in terms of liquidity and it acts in favor for expansion and growth of shareholders worth (Mohammadreza, 2012). Working capital management refers to investment in current assets and current liabilities that are liquidated inside one year or less, and is thus crucial for firm's daily operations (Kesimli & Gunay, 2011). working capital (WC) refers to the cash required to finance the daily revenue generating activities of the firm. in line with Vahid, Mohsen and Mohammadreza (2012) capital management (WCM) plays a major role in deciding success or failure of firm in business performance thanks to its impact on firm's gain and on liquidity. Business success depends heavily on the flexibility of monetary managers to effectively manage the elements of WC. A firm could adopt an aggressive or a conservative capital management policy to realize this goal (Tauringana & Afrifa, 2013) Gill, Biger and Mathur (2010) analyzed the link between WC management and profitableness of eighty eight American corporations listed on Nigeria stock exchange 2005 to 2007 was designated. The information was analyzed victimization Pearson bivariate Correlation Analysis and Weighted Least Squares (WLS) Regression Techniques. They found statistically vital relationship between the cash conversion cycle and profitableness, measured through gross operational profit. It followed that managers will generate profits for his or her firms by handling properly the cash conversion cycle and by keeping accounts assets at an optimum level. Charitou, Elfani and Lois (2010) declared that economical utilization of the organization's resources results into enlarged profitableness and minimize volatility that results in the decrease in default risk and therefore rallies the firm's worth. Lairodi and Lazardis (2000) conducted the analysis to determine if there was any relationship between

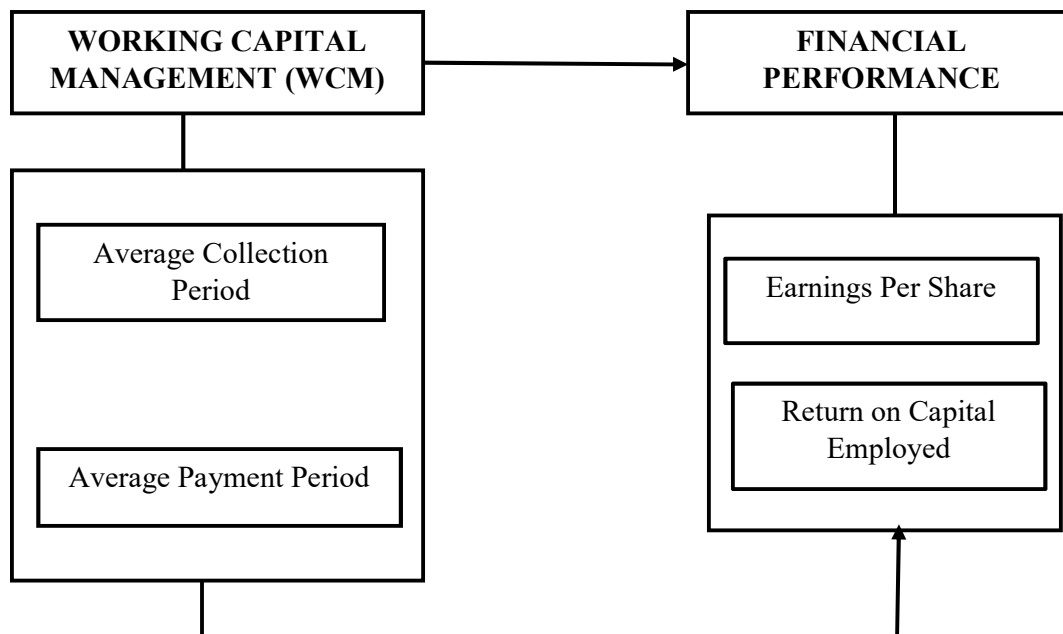
Statement of the Problem

Despite the crucial nature of working capital management, many promising and viable investment with high rate of return had turned out to be failures and went down (Salandeen, 2001). In Nigeria, many factories have been short down owing to wrong working capital management. Kastina steel rolling mill co. ltd, Niger sugar Company Bacita, Golden Guinea Breweries Umuahia, Aba textile Mills ltd Aba all went down and led to untimely and unplanned disengagement of many Nigerian workers

and put them in the unemployment market. In addition, The Ajakuta steel complex reduced its work strength from 5000 to 1000 in the year 2007 and few firms in business cannot pay dividend to their equity holders and are still in shamble despite their inability to pay and still they are quoted on the floors of Nigerian stock exchange market. Of recent, some companies were acquired by others because of inability to stand alone. For instance, Savannah sugar company ltd has been acquired by Dangote industries limited in 2002. It must be noted that these manufacturing companies play a crucial role in the economy as they employ not less than 80 percent of the country's total working population. It is based on the problems identified above that this study is designed to find out the impact of working capital management on financial performance.

Conceptual Framework

This study has two variables, the independent and the dependent. Working capital management is the independent variables whereas, the dependent variable is the financial performance of manufacturing firms in Nigeria. This is conceptualized below:



Purpose of the Study

In an effort to find the solution and remedy the above problems, this study is aimed at determining the impact of working capital management on financial performance. Other specific objectives are to:

1. Ascertain the impact of average collection period on Earnings per share of manufacturing firms in Nigeria.
2. Investigate the influence of average collection period on Return on Capital Employed of manufacturing firms in Nigeria.
3. Determine the effect of average payment period on Earnings per share of manufacturing firms in Nigeria.
4. Ascertain the influence of average payment period on return on capital employed of manufacturing firms in Nigeria.

Research Questions

In order to justify the above objectives, the following research questions have been formulated:

1. What impact does average collection period have on financial performance of manufacturing firms in Nigeria?
2. What impact does average payment period have on financial performance of manufacturing firms in Nigeria?

Research Hypotheses

In order to determine answers to the above research questions, the following hypotheses are stated for this study:

H0₁: There is no significant impact of average collection period on earnings per share of manufacturing firms in Nigeria.

H0₂: There is no significant influence of average collection period on return on capital employed of manufacturing firms in Nigeria.

H0₃: There is no significant effect of average payment period on earnings per share of manufacturing firms in Nigeria.

H0₄: There is no significant influence of average payment period on Return on capital employed of manufacturing firms in Nigeria.

LITERATURE REVIEW

Theoretical Review

Operating cycle theory

As one of the theories of working capital management, the operating cycle considers the receivables and inventories relating to working capital and usually, it commences with receipts of raw- materials to collection of receivables from debtors of the stock sales produced from those materials. This theory suggest that granting more credit terms to customer will lead to higher tendency of having a bigger but less liquid investment in cycle (inventory turnover).

Resource based theory

This theory is of the opinion that survival and growth of a firm depends on either the human or material resources of the firm. Resources means the inputs that are pushed into production process and are considered as fundamental unit of analysis and such include brand name, human skill, capital equipment, patent, finance etc.

Conceptual Review

Concept of working capital management

Samuels, (2006), argues that funds management is the planning, controlling and the effective utilization of funds. Money can be earned not only through manufacturing and distribution but also through the management of all its assets that it employs. The best funds management policy is through funds budgets. A company can decide on the funds that it will have available for short-term investment at a particular time depending on the nature of business and season. If a business is seasonal or trade is cyclical, funds budgets will show when the surplus funds that will be available and what length of time will elapse before they are required. Some companies will borrow money in case of deficit spending to satisfy their seasonal needs.

Kakuru, (2000) argues that every organization must establish funds management policies or guidelines to ensure that it has optimal funds balance at any time when it requires it. This can be achieved by implementing the following funds management policies. The organization must ensure that it speeds up funds inflows through efficient credit policy. For example timely preparation and delivering of customer invoices, making customers to pay their outstanding by allowing funds discounts. This will enable the firm to keep in a liquid position and carry on its operations efficiently. Firms hold funds for primary reasons but although the first two of these are generally satisfied by holding actual funds (a checking account balance, the last two requirements may be meet, instead

by holding highly liquid marketable securities. The main reasons can be explained according to Bodil (1995) as below.

Funds inflows and out flows are somewhat unpredictable with the degree of predictability varying among firms and industries. Therefore firms need to hold some funds (or more often marketable securities) in reserve for random, unforeseen fluctuations in inflows and outflows. These 'safely stock' of funds are called the precautionary balance and the less predictable the firm's funds flows the larger the necessary funds balance.

Funds balance may also be held to enable the firm to take advantage of any bargain purchases that might arise; these funds are defined as speculative balances. For example reduction in the price of raw materials, any profitable short-term investment that may happen, the firm should maintain such balance to take advantage of the investment opportunities that may arise Campsey (2005). Lending institutions such as companies make money by lending out funds that have been deposited with it. So the larger its deposits, the better the company profit position. If a company is providing services to a customer, it generally requires the customer to leave a minimum balance on deposit to help offset the cost of providing the service Campsey (2008).

Funds balances are necessary in business operations because payments must be made in funds and the receipts are deposited in the funds account. These funds balances are associated with routine payments and collections are known as transaction balances Knott (2008).

One way, in which a firm can keep its funds on hand longer, would simply be by delay payments, but this would lead to such obvious difficulties as being labeled "a dead beat". Firms have always lengthened the collection period for their cheques so as to delay funds out flows. Payables Centralization permits the financial manager to evaluate the payment coming, one for the entire firm and to schedule funds transfers to meet the needs of the company wide basis. Centralizing disbursements also permits more efficient monitoring of payables and float balances Van (2000).

When a firm is actively trying to use floats, it will often arrange with its company to have the use of an overdraft system. In such a system, the firm writes cheques in excess of its actual balance and its company automatically extends loans to cover funds shortage. The overdraft is sometime interest free so the firm can use it to carry out its operations, which can yield a return in the long run Sanford et al (2001).

Average Collection Period

Account receivable is one of the three variables in cash conversion cycle (CCC) represented as the average collection period result from a company selling its products or services on credit. This period is the average length time form a sale on credit until the payment becomes usable funds for the firm (Attari & Raza, 2012). ACP involves managing the credit available to the firm's customers, and in receiving, processing and collecting payments. Setting credit standards enables effective management of credit and accounts receivable process (San & Heng, 2011). This process involves applying techniques for determining which customer should receive credit and how much credit should be granted. Relaxed credit standards generally yield increased sales and additional profits, whereas tightened credit standards reduce investment in accounts receivable and thus lowered sales and profit (Hrshikes, 2012).

According to Pandey (2014), accounts receivable is money owed to a firm when it sells its products or services on credit and it does not receive cash immediately. Credit is the ability of a business or an individual to obtain economic value on faith in return for an expected future payment. Trade credit is provided when there is a delay between the delivery of goods and the provision of services by a supplier and payment for them. For the seller, or the service provider, it represents an investment in accounts receivable (Pedro and Pedro, 2008). According to Hrshikes (2012), accounts receivable are created by a firm when it sells its output on credit. According to Pandey (2014), trade credit creates receivables or book debts which the firm is expected to collect in the near future. Trade credit is, within most firms, seen as an essential element of business life. The practice of granting trade credit can be traced as far back as 1000 BC yet, until recently, it has attracted

relatively little research attention. According to Pedro and Pedro (2008), trade credit has one effect on the level of investment in assets and consequently may have an important impact on the profitability and liquidity of the firm and also grandly trade credits improves the sales for the firm but over-investment in accounts receivables can be costly due to increase of investment in current assets and because it may signal acceptance of late paying customers.

According to Pandey (2014), the receivable arising out of credit has three characteristics: First, it involves an element of risk which should be carefully analyzed. Second, it is based on economic value to the buyer, the economic value in goods or services passes immediately at the time of sale, while the seller expects an equivalent value to be received later on. Third, it implies futurity. The cash payment for goods or services received by the buyer will be made by him in a future period. The importance of trade credit is seen by virtue of its size (Pike & Cheng, 2015). Further Pike and Cheng (2011) found that, unsecured open account trade credit represents a substantial figure on most corporate balance sheets (Pandey, 2014).

The functions of accounts receivable management emanate from its goal which is stated simply as setting out credit terms, selecting the customers, installing appropriate collection and monitoring system and financing the receivables for maximizing the value of the firm (Hrishikes, 2015). Although accounts receivables are short-term in nature, the policy decisions that create accounts receivables often have a long-term impact on the organization and its financial structure, because, once a receivables policy is determined, it is difficult to come out of it except at the cost of adverse market reactions. Besides, credit policy decisions are part of an integrated approach, and interface actively with production, marketing and finance functions of an enterprise (Hrishikes, 2015). According to Arnold (2005), the first issue in the management of trade debtors is to decide whether to grant credit at all. Credit is no inevitable. Arnold (2016), further say that if a firm decides that it is in its best interest to allow delayed payments then it needs to set up a system and guidelines which will amount to a debtor policy.

In the absence of written credit policy document, credit decisions suffer from short-term considerations and this may often cause a firm severe liquidity crisis (Hrishikes, 2015). The primary goal of receivables management is to maximize the value of the enterprise by striking a balance between liquidity, risk, and profitability. A significant part of receivables management involves the proper selection of customers, because every credit sale involves the risk of delayed payment or non-payment of the value involved (Hrishikes, 2015). This study will seek therefore to establish if average collection period affect working capital in the manufacturing firms listed in the NSE.

Average Payment Period

Corporate trade credit has been seen as one of the most interesting and important topics in the finance field for a long time. This type of short-term financing is especially relevant to both large publicly listed companies and the Small and Medium Enterprises (SMEs) (Oliveira Marques, 2010). In developing countries, both small and large firms trade credit to raise funds. Some studies like Nilsen, et al. (1999) highlight that trade credit can be industry- specific. They proved that there is little variation within industries and a wide variation among industries in terms of credit. While Miwa and Ramseyer (2005) emphasized the importance of trade credit as a source of fund, Antov and Alanasova (2007) viewed it as a signal of firm's creditworthiness. Payables constitute one of the most important components of working capital. Their effective management facilitates the increase in the size of the business activities. They make possible the increase in business activities by increasing total sales which consequently increase the recycling of funds and the generation of higher profitability (Madishetti and Kibona, 2013). An enterprise that is managed efficiently normally keeps average payments period (APP) higher than Average Collection Period (ACP) so as to minimize investment in receivables and, at the same time, honour its short- term obligations on time. The large number of business failures are attributable to the inability of business managers to plan and control the Average Payables Period (APP) and Accounts Receivable Period (ARP) of their respective companies, (Madishetti and Kibona, 2013).

Cooler, et al (2014) observed that working capital performance showed a slight improvement over the past three years (2011-2013) globally. According to Cooler, et al (2014) payables were the only components that had shown consistent improvement globally with Europe reducing by 1 day to 43 days, America by 1% to 33 days and Asia, Africa and Australia each showing a reduction of 2 days to 42 days. Padachi, Narasimham, Durbarry and Howorth (2008) observed that "short-term sources, more particularly trade credit and other payables, play a significant role in financing working capital" (p.58). For Welner (2000) firms have excessive use of trade credit in spite of the apparent greater cost.

According to Padachi, et al (2008), "if a firm is forced through financial stringency to keep its working capital constant, then, increased payment delays from customers must be balanced by delaying payments to suppliers" (p.46). The implication of those assertions is that companies use significant payables investment while adopting a working capital management policy. Companies extend payables days if they over- invest in inventory or are not being paid on time from receivables. Ganesh, Mohapatra and Nagarajan (2014) noted that organizations all around the world had become conscious of the fact that, in order for them to compete in the international markets and sustain their competitive advantage successfully, it was necessary for them to strive to imbibe and rely on effective supply chains and network. Bartram (2013) shared similar view with Ganesh, Mahapatra and Nagarajan (2014) on the need for the members that constitute a part of the supply chain to be in close co-operation. Padachi, et al (2008) maintained that a lengthening of the working capital cycle was partly met by stretching the credit period from suppliers and that this might impact adversely on customer-supplier relationships. Bartram (2013) shared the same view with Padachi, et al (2008). In the comparison of the relative importance of working capital components, Tauringana and Afrifa (2003) discovered that the management of payables for SMEs was more crucial than even the management of inventory. According to Deloof (2003), delaying payments to creditors would serve as an inexpensive and flexible source of financing a firm. In due consideration of the significance of the investment in variables, the benefits derived from utilizing payables and the fact that some of the results derived from previous studies are considered as contrary to theory, this study has sought to find out whether average payables period has a significant impact on the Return on Assets of quoted insurance companies in Nigeria, as proposed by theory.

Accounts payable includes all the money which a business owes for the purchase already made (Hartman, 2014). It represents the money owed by a business to its supplier which is shown as a liability on a company's balance sheet. It is different from note payable and wages payable which are debts that are created by formal legal instrument documents (Needles et al, 2013). Investopedia (2015) defines accounts payable as an accounting entry that represents an entity's obligation to pay off a short-term debt to its creditors. Accounts payables are often referred to as "payables". They are debts which must be paid off within a given period of time in order to avoid default. Payables are not limited to corporations but are also applicable at household level. Webster's New Universal Unabridged Dictionary defines Accounts Payable as "a liability to a creditor carried on open account usually for purchases of goods and services" (1935-40). Much of the information that needs to be reviewed in the accounts payable process are expected to be found in the following documents: -

- Purchase orders used by the company
- Receiving reports used by the company
- Invoices from the company's suppliers.
- Contracts and other agreements.

The accuracy and completeness of a company's financial statements depends on the efficiency of the accounts payable process. Web-finance (2015) views accounts payable as the money which a company owes to vendors for products and services purchased on credit. It is a current liability since the expectation is that the liability will be defrayed in less than one year.

Accounts payables, also known as payables or trade payables, is the aggregate amount of an entity's short-term obligations to pay suppliers for products or services which the entity bought on credit. A default in paying the accounts payable may trigger a penalty or interest payment, or the revocation

or curtailment of additional credit from the supplier. Accounts payables are viewed as a source of cash because they represent funds borrowed from suppliers.

When accounts payables are paid, cash is used. Because of these cash flow considerations, suppliers are naturally inclined to push for shorter payment terms while debtors want to lengthen the payment terms. However, from a management perspective, it is worthwhile having accurate accounts payable records to ensure that suppliers are paid on time and that liabilities are recorded in full within the current time periods. If that is not the case, suppliers may decline from granting credit and the financial results of the company may be incorrect. Accounts payable are the opposite of accounts receivable. Accounts payable were explained as follows by Humpton and Wagner (1989) "When a firm makes a purchase on credit, it makes an obligation to pay for the goods according to the terms given by the seller." The value of accounts payable usually rises as costs rise, especially when rising cost compels the small business to buy necessary items on credit. Unless income goes up instantaneously, the result of more spending through accounts payable is a lower return on investment rate. Accounts payable has a more direct and significant effect on the cash flow of small business than it does on the overall return on investment (ROI). It creates the need for cash at some point in the future when the accounts come down. According to Peavler, (2015), accounts payables, located on a company's balance sheet represent what the company owes its suppliers or the vendors from which it buys its' inventory and other suppliers. They are current liabilities which are listed on the right-hand of the balance sheet. They are just like unpaid bills and are expected to be repaid to the suppliers within one year. Apart from being a source of funding, accounts payable can be used to assess the quality of a product (Deloof, 2003; Long, Malitz and Ravid, 1993; Smith, 1997).

Accounts payables can have a serious impact on profitability and can either improve corporate profitability or cause the latter to decline. The two primary ways that accounts payables impact on corporate profitability are the company's relationship with its suppliers and the company's cash flow. The single most crucial thing a company can do to maintain good supplier relationship is to pay its bills on time. Supplier relationship management involves having a mutually beneficial relationship between the company and each of its suppliers. Good supplier relationship will motivate suppliers to cut good deals for the company. They will suggest new better products to the company and work with the company on delivery times and policies. With a set of best practices in accounts payable management, accounts payable can have a positive impact of corporate profitability. This is achieved by the company (a) paying its bill on time (b) eliciting trust between it and its suppliers and (c) trying to facilitate the pressure of its accounts payables with a minimum of cost (Peavler, 2015). Effective management of payables has a direct impact on profitability when there are proper controls such as scheduled payments. It is possible for a company to take advantage of such supplier discounts and significantly reduce its purchasing cost. A typical account payable policy is "2 in 10, net 30". What this means is that if a firm pays for the debt within 10 days, it receives a cash discount of 2 percent; if not, the total bill has to be paid in thirty days. It is possible that the payables policy is net 30. This means that the date is within 30 days without discount (Nwude, 2003).

Financial Performance

A customer is the most important visitor on business premises; he is not dependent on business. Business is dependent on him. He is not an interruption in business work. He is the purpose of it. He is not an outsider in business. He is part of it. Businessmen are not doing him a favor by serving him. He is doing them a favor by giving them an opportunity to do so Alm (2000). He further argued that the profit motive is not only fundamental to our ability to reward shareholders and pay employees; it's fundamental to excellent journalism. Far from corrupting the craft, profits enhance it. Expansion drives diversity and diversity protects and strengthens our craft. Nevertheless Money is only used for two things. One, it's to make you comfortable, and the more comfortable you are the more creative you will become. And the other purpose is it enables you to extend the service you provide far beyond your own presence. The country is now universally recognized as a

nation on the move and takes its place amongst the successful economies in the region. The future potential is enormous but the country's destiny is in our hands. The time has come to move from small increments to bold, large initiatives. The time has come to stretch the envelope and set goals which were earlier not seen to be possible. The time has come for performance to be measured and for allocated funds of the government to reach the people for whom they were intended Matovu and Ritva (2001).

The theories discussed so far all recognize that the attitudes and abilities of the business owner have an important impact on small firm growth and will be reflected in strategic choices and the ways in which he or she operates the business. The following section will draw from a variety of theoretical and empirical sources on small firm growth for the purpose of developing expected theoretical relationships between particular sets of variables, or factors of growth, and business growth Matovu and Ritva (2001).

It has been proposed in the literature that women may have fewer opportunities to develop relevant experiences, may have fewer networks to get assistance and may have greater difficulty in assembling resources Sexton and Robinson (1989). There is some evidence that companies may impose more stringent requirements on women business owners in regard to collateral for loans, and therefore limit their ability to grow Riding and Swift, (1990). Women may also be more family oriented and be less keen in pursuing economic goals related to expansion of the firm (Brush, 2002). Cooper et al., (2004) found that being female had a negative impact on the growth of small ventures but had no impact on the survival of the firm.

Younger individuals may be more willing to assume risks and grow their business. Following Davidson's argument, a younger individual may have a higher need for additional income. The burden of supporting a family and meeting mortgage payments generally declines with age. An older individual who continues to be the owner-manager of a small firm is more likely to have reached his/her initial aspirations. However, while younger individuals have more motivation to expand their business they also may have fewer financial resources and fewer networks. The limited empirical evidence suggests that the owner-manager's age tends to be negatively related to growth Boswell (2003).

Evidence from Borjas, (2006) suggests that immigrants are more likely to become self-employed and that they are more likely to create higher incomes from this activity than will native entrepreneurs. The explanation for this differential is that immigrants create enclaves by concentrating in specific geographic areas, which in turn create and expand opportunities for small entrepreneurial ventures, in particular for immigrants of the same national background as the residents of the enclave. However, it is suggested that there may be limits to the growth of entrepreneurial ventures owned by immigrants as enclaves are in poor locations and offer limited access to the general market. It is also suggested that immigrants may have fewer contacts and more difficulty in obtaining insurance, credit from suppliers and access to prosperous customers. No study has linked immigration status to business growth. However, there is some empirical evidence that suggests that being part of a racial minority is linked to lower probabilities of both survival and growth Cooper et al (2004).

The effect of education has been widely studied. Education is presumably related to knowledge and skills, motivation, self-confidence, problem solving ability, commitment and discipline. Higher education is expected to increase the ability of the entrepreneur to cope with problems and seize opportunities that are important to the growth of the firm. Empirical evidence on the effects of education on firm performance is mixed. In ten out of seventeen empirical studies surveyed, Cooper et al. (2002), found a positive relationship between prior level of education and firm performance. Cooper et al. (2004) found that having a Bachelor's degree has a positive impact on both survival and growth of small ventures.

According to the small business literature, there is a distinct difference between the small business owner and the entrepreneur. Birch (2007) distinguishes between "income substitutes" and "entrepreneurs", the former substituting paid-employment income with business income, the latter

being committed to the growth of their business. Similarly, Hay (1994) makes the distinction between "value builders" and "life-stylers." The latter seek long-term stability instead of growth, and use the business as a means of generating income sufficient to support a certain "life-style." Canadian evidence supports this finding. In an Ontario survey of small business start-ups, half of new firm owners intended that their business would simply generate enough income to make a living for themselves (Blatt, 2003). Therefore, for entrepreneurial ventures the willingness of the owner-manager to grow is as important as his ability to foster and manage growth.

Earnings per Share (EPS)

Earnings per Share are considered to be the single most popular, widely used financial performance benchmark of all. Graham, Harvey and Rajgopal (2004) surveyed 400 financial executives in the USA and reported that the majority, by far, were of the opinion that earnings were the most important performance measure they report to outsiders. EPS is also the linchpin undergirding strategic decision-making like share valuations, management performance incentive schemes and merger and acquisition negotiations. EPS is simple to calculate and easily understood and management is congratulated when there is positive EPS growth. It is no surprise that managers take a special interest in EPS when their compensation is linked to the EPS performance of the company. Most investors are familiar with the valuation multiple, the P/E ratio, which has EPS as the denominator. Authors such as Chen, Jorgensen and Yoo (2004), Ohlson and Juettner-Nauroth (2005) and Taboga (2011) confirm the continued relevance EPS and EPS growth in modern day share valuation methodology. Adkins, Matchett and Toy (2010) attribute the obsession with EPS to the fact that EPS neatly summarizes the earnings generated for shareholders and the shareholder's view appeals to investors and management alike.

Rappaport (2005) infers that short term (EPS) performance is especially important for younger companies for which future growth expectations are more sensitive to current performance, compared to older companies with a longer operating history. In addition, he points out that senior executives, who are constantly mindful of the link between their own reputation, the risk of losing their job and the share price, tend to focus on short term measures like EPS. Brown (1999) comments that when companies, under severe pressure to meet market expectations, underperform EPS estimates by only a few cents, experience "double digit nosedives" in share prices. Big share price movements in response to earnings surprises reinforce the perception that short term earnings rather than long term cash flow expectations drive share price changes.

There has been a significant decrease in average share holding periods in the USA, from about seven years in the 1960s to less than a year in 2005 (Rappaport, 2005). It is argued that this short term holding period leads to a greater reliance on the beliefs of others and momentum-motivated trading, rather than long term fundamentals, in investment decisions. With dividend yields in the US averaging about 2%, short term investors rather focus on capital gains when they sell the shares at the end of their investment horizon and not on the dividend. Consequently they look at short-term indicators like earnings to project the share price at the end of their investment horizons.

Return on Capital Employed (ROCE)

Return on capital employed is an accounting ratio used in finance, valuation, and accounting. It is a useful measure for comparing the relative profitability of companies after taking into account the amount of capital used (Fernandes, 2014). It is similar to return on assets (ROA), but takes into account sources of financing.

In the denominator we have net assets or capital employed instead of total assets (which is the case of Return on Assets). Capital Employed has many definitions. In general it is the capital investment necessary for a business to function. It is commonly represented as total assets less current liabilities (or fixed assets plus working capital requirement).

Empirical Review

In 2013, Daniel and Ambrose investigated working capital management and firm profitability. Empirical Evidence from manufacturing and manufacturing firms listed on Nairobi securities Exchange, Kenya. The challenge of the study was to find out the relationship between working capital management and profitability. The study employed a balanced panel data of five manufacturing and manufacturing firms each which are listed on the Nairobi securities exchange (NSE). Pearson's correlation and ordinary least squares regression models were used. The study covers a period of 10 years that is 2003 – 2012. The study find out that a negative relationship exist between profitability and number of days accounts receivable and cash conversion cycle, but a positive relationship between profitability and number of days of inventory and number of days payable. According to the study, financial leverage, sales growth, current ratio and firm size have significant effect on the firm's profitability. The researchers concluded that firms can create value for their shareholders by reducing the number of day's account receivable and by increasing their inventories to a reasonable level. Niresh (2012) carried out a study on working capital management and financial performance of manufacturing sectors in Sri Lanka. The major purpose was to investigate the relationship between working capital management and financial performance of listed manufacturing firms in Sri Lanka. The study covered a six years period between 2006–2011. Return on assets and return on equity were used as performance measures whereas cash conversion cycle, current assets to total asset and current liabilities to total assets were used as working capital management measures. The study employed correlation and regression analysis models for analysis and the result of the analysis revealed that there is no significant relationship between cash conversion cycle and performance measures and hence the study concludes that, manufacturing firms in Sri Lanka follow conservative working capital management policy. Ogundipe, Idowu and Ogundipe (2012) studied working capital management, firms' performance and market valuation in Nigeria. The focus of this study was to examine the impact of working capital management on firms' performance and market value of firms in Nigeria. A sample of fifty-four non-financial quoted firms in Nigeria listed on the Nigeria stock exchange was selected for the period 1995–2009. The data for the study was sourced from annual reports of the sample firm for the period under review. Regression model was used for analysis and the result of the analysis revealed that significant negative relationship exist between cash conversion cycle and market valuation and firms' performance in Nigeria. The findings also confirmed that there is a significant relationship between market valuations; profitability and working capital component the study recommend that Nigeria firms should ensure adequate management of working capital especially cash conversion cycle components of account receivables, account payables and inventories, as efficiency working capital management is expected to contribute positively to firms' market value. Raheman, Afza, Qayyum and Bodla (2010) Investigated working capital management and corporate performance of manufacturing sector in Pakistan. The major challenge was to evaluate the relationship between working capital management and profitability of manufacturing companies in Pakistan. The study covered the period 1998–2007. Balanced panel data of 2014 manufacturing firms was used which are listed in Karachi stock exchange firms. The result indicated that cash conversion cycle, net trade cycle and inventory turnover in days are significantly affecting the performance of the firms. Financial leverage, sales growth and firm size also have significant effect on the firm's profitability. The study concluded that firms in Pakistan are following conservative working capital management policy and the firms are needed to concentrate and improve on their collection and payment policy. The study recommended that specialized persons in finance should be hired by the firms for expert advices on working capital management especially in the manufacturing sector in Pakistan. In 2010, Mathura investigated the influence of working capital management on corporate profitability. The problem of the study was to find if cash collection period influences firm profitability. The study covered 30 firms listed in Nairobi Stock Exchange for the period 1993–2008. The tool for analysis was parted ols and the fixed effects regression model. The findings revealed that a highly significant negative relationship exist between the time it takes for firms to collect cash

from their customers and profitability. According to him, more profitable firms take the shortest time for cash collection but positive significant relationship exists between inventory conversion period and profitability. The study concludes that the longer a firm takes to pay its creditors, the more profitable it is for them. Gill, Biger and Mathur (2010) carried out a study on the relationship between capital management and profitability. The study covered 88 American first listed on New York stock exchange for a period 2005–2007. The tool for analysis was Pearson Bivariate correlation analysis and weighted least squares (WLS) regression model. The focus was to find out the relationship between working capital management and profitability. The study found that there exist a significant relationship between the cash conversion cycle and profitability measured through gross operating profit.

METHODOLOGY

This study is an ex post facto research design. That is, the researcher wants to know the influence of working capital on the performance of manufacturing Companies in Nigeria by using information from the annual report of the listed manufacturing firms in the Nigerian Exchange Group.

Population of the Study

The population for this study comprises of the all listed manufacturing companies in Nigeria Stock Exchange. While the sample size was five (5) selected manufacturing companies in Nigeria Stock Exchange are namely; Guinness Nigeria Plc, Nigerian Breweries Plc, First Aluminium Plc, Dangote Cement Plc and Flour Mills Nigeria Plc.

Measurement of the Variables

The variable consists of independent and dependent variables. The independent variable's dimensions are average collection period (ACP) and average payment period (APP) which proxied working capital. The dependent variables consist of earnings per share (EPS) and Return on Capital employed (ROCE).

Independent Variables:

$$\text{Average Collection Period (ACP)} = \frac{\text{Average Receivables}}{\text{Sales}} \times 365 \text{ days}$$

$$\text{Average Payment Period (APP)} = \frac{\text{Average Payables}}{\text{Cost of goods sold}} \times 365 \text{ days}$$

Dependent Variable:

$$\text{Earnings per Share (EPS)} = \frac{\text{Net Income} - \text{Dividend}}{\text{Outstanding Shares}}$$

$$\text{Return on Capital Employed (ROCE)} = \frac{\text{Profit before interest \& tax}}{\text{Total Asset} - \text{current liabilities}}$$

Method of Data Analysis

In order to evaluate the relationship between working capital and financial performance of the Manufacturing Companies in Nigeria, the data was analyzed using ordinary least square through statistical package for social sciences (SPSS) version 21.

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

The data were sourced from the annual report of five (5) manufacturing companies in Nigeria for the period 2013-2022. The five (5) manufacturing firms were divided into two categories:

- Highly leveraged working capital: Refers to more of short term debt funding (trade payables) than short term asset which is justified by an increase in trade payables over trade

receivables. The companies under this category are Guinness Nigeria Plc, Nigerian Breweries Plc and Dangote Cement Plc.

- Lowly leveraged working capital: Refers to more of short term asset funding than short term debt which is justified when trade receivables is greater than trade payables. The companies under this are Flour Mills Nigeria Plc and First Aluminium Plc.

The result is presented below:

LOWLY LEVERAGED WORKING CAPITAL MANAGEMENT AND PERFORMANCE INDICES

FLOUR MILLS NIGERIA PLC											
NAME	YEAR	REVENUE	RECEIV.	COGS	PAYABLE	CAP. EMP.	PBIT	ACP	APP	EPS	ROCE
	2022	394,884	28,471	354,953	68,334	213,643	15,077	26	70	307	0.0706
	2021	370,206	50,322	337,074	66,343	175,728	1,626	50	72	471	0.0093
	2020	389,398	49,547	337,821	40,127	182,530	29,285	46	43	352	0.1604
	2019	375,225	80,824	324,919	55,802	126,520	29,949	79	63	375	0.2367
	2018	247,877	66,504	223,665	29,046	118,788	4,300	98	47	397	0.0362
	2017	229,778	73,572	204,834	24,453	115,415	6,806	117	44	92	0.0590
	2016	245,701	50,950	216,422	37,821	139,327	17,269	76	64	431	0.1239
	2015	225,630	34,010	202,446	19,818	120,373	13,695	55	36	372	0.1138
	2014	231,360	32,109	190,018	20,788	126,005	31,026	51	40	392	0.2462
	2013	226,490	33,910	176,125	34,215	124,515	40,264	55	71	418	0.3234

Note: all figures are in millions of naira (Revenue, Receivables, COS, Payables, Cap. Emp. PBIT)

Source: Researcher's computation from financial statement of chosen manufacturing firms

FIRST ALUMINIUM PLC											
NAME	YEAR	REVENUE	RECEIV.	COGS	PAYABLES	CAP. EMP.	PBIT	ACP	APP	EPS	ROCE
	2022	6,828	5,490	7,085	3,002	9,786	206	293	155	4	0.0211
	2021	6,808	5,463	6,980	2,990	8,970	257	293	156	4	0.0287
	2020	6,891	5,236	6,402	2,840	9,561	268	277	162	-1	0.0280
	2019	7,878	5,883	6,592	1,631	5,805	1,080	273	90	-2	0.1860
	2018	9,155	5,927	8,107	1,289	5,856	852	236	58	8	0.1455
	2017	10,478	5,649	9,751	569	5,983	450	197	21	5	0.0752
	2016	8,902	5,289	8,161	614	5,632	435	217	27	0	0.0772
	2015	8,390	5,674	7,674	970	5,597	424	247	46	0	0.0758
	2014	8,639	5,714	8,490	857	5,469	-652	241	37	0	0.1192
	2013	8,627	5,725	8,291	1,028	6,609	76	242	45	-13	0.0115

Note: all figures are in millions of naira (Revenue, Receivables, COS, Payables, Cap. Emp. PBIT)
Source: Researcher's computation from financial statement of chosen manufacturing firms

HIGHLY LEVERAGED WORKING CAPITAL MANAGEMENT AND PERFORMANCE INDICES

NAME		GUINNESS NIGERIA PLC								
YEAR	REVENUE	RECEIV.	COGS	PAYABLES	CAP. EMP.	PBIT	ACP	APP	EPS	ROCE
2022	104,376	18,719	71046	31945	83,548	-12,832	65	164	-574	-0.1536
2021	131,498	26,019	91369	31921	111,937	8,966	72	128	250	0.0801
2020	142,976	23,890	94350	31176	110,408	13,386	61	121	330	0.1212
2019	125,920	22,967	77605	43053	82,318	10,186	67	202	128	0.1237
2018	101,973	26,510	60163	37530	69,882	4,416	95	228	-134	0.0632
2017	118,496	15,504	63552	31482	76,147	15,667	48	181	518	0.2057
2016	109,202	19,218	57869	30724	88,080	16,123	64	194	636	0.1830
2015	122,464	15,139	66385	30433	69,785	20,934	45	167	793	0.3000
2014	126,288	10,852	70088	24426	63,537	22,861	31	127	995	0.3598
2013	123,663	18,134	68620	26290	55,639	26,539	54	140	1,216	0.4770

Note: all figures are in millions of naira (Revenue, Receivables, COS, Payables, Cap. Emp. PBIT)
Source: Researcher's computation from financial statement of chosen manufacturing firms

NAME		NIGERIA BREWERIES PLC								
YEAR	REVENUE	RECEIV.	COGS	PAYABLES	CAP. EMP.	PBIT	ACP	APP	EPS	ROCE
2022	337,006	10,457	218355	137859	235,362	29,818	11	230	94	0.1267
2021	323,002	20,910	191757	102718	255,064	35,255	24	196	201	0.1382
2020	324,389	35,153	197485	114881	248,383	36,990	40	212	243	0.1489
2019	350,226	19,974	201035	128646	226,028	36,957	21	234	413	0.1635
2018	344,527	22,543	178219	111821	222,783	57,126	24	229	358	0.2564
2017	313,743	31,129	151444	123450	232,875	52,908	36	298	332	0.2272
2016	293,906	19,954	130788	100344	232,885	60,660	25	280	402	0.2605
2015	266,372	18,675	132136	113766	230,090	65,080	26	314	463	0.2828
2014	268,614	19,087	130334	103567	228,565	67,123	26	290	472	0.2937
2013	264,520	18,350	122928	91354	228,555	65,835	25	271	468	0.2880

Note: all figures are in millions of naira (Revenue, Receivables, COS, Payables, Cap. Emp. PBIT)
Source: Researcher's computation from financial statement of chosen manufacturing firms

NAME		DANGOTE CEMENT PLC								
YEAR	REVENUE	RECEIV.	COGS	PAYABLES	CAP. EMP.	PBIT	ACP	APP	EPS	ROCE
2022	719,945	14,829	225,744	140,245	1,577,447	347,597	8	227	21	0.2204
2021	610,247	12,700	181,009	130,939	1,413,409	293,899	8	264	15	0.2079
2020	618,301	11,046	170,288	92,879	1,437,215	335,410	7	199	28	0.2334
2019	552,364	12,340	158,594	142,737	1,267,131	305,902	8	329	15	0.2414
2018	426,129	11,857	178,129	178,567	1,112,338	183,730	10	366	22	0.1652
2017	389,215	4,252	130,418	79,584	983,889	193,698	4	223	13	0.1969
2016	371,534	8,463	128,584	80,407	757,612	190,908	8	228	11	0.2520
2015	371,552	9,121	115,893	74,511	670,707	201,080	9	235	12	0.2998
2014	365,222	8,543	124,335	86,455	752,389	185,250	9	254	14	0.2462
2013	356,286	9,232	118,807	75,858	899,078	192,550	9	233	13	0.2142

Note: all figures are in millions of naira (Revenue, Receivables, COS, Payables, Cap. Emp. PBIT)

Source: Researcher's computation from financial statement of chosen manufacturing firms

Data Analysis

The data presented above were used in the analysis of the study. They also formed the basis for testing the hypotheses. Ordinary least square was used for the analysis at 5% significant level. The result was summarized below:

Working Capital Management and Earnings per Share of manufacturing firms

In order to determine the relationship that subsist between working capital management (measured by Average Collection Period and Average Payment Period) and Earnings per share, regression analysis of the SPSS (version 21.0) software is used to test hypothesis one and three as follows:

Model Summary						
Model	R	R Square	Adjusted Square	R Std. Error of the Estimate		
1	.430^a	.185	.134	1.11651		
a. Predictors: (Constant), ACP1, APP1				SPSS Output (2023)		
Coefficients^a						
Models	Unstandardized Coefficients		Standardized Coefficients			
	B	Std. Error	Beta	t	Sig.	
1	Constant	3.095	.957		3.234	.003
	APP1	.572	.232	.483	2.468	.019
	ACP1	-1.847	.799	-.452	2.311	.027
a. Dependent Variable: EPS1				SPSS Output (2023)		

From the regression result presented above, the co-efficient of regression B gave a value of 0.572, showing a positive relationship between Average Payment Period (APP) and Earnings per share (EPS). Implying that a unit increase in APP will lead to 57,2% units increase in EPS of manufacturing firms. Also, the relationship between EPS and APP proved to be statistically significant as the

computed t-statistic is 2.468 and the critical t-statistic is 1.960. However, the relationship between EPS and ACP is negative as the co-efficient of regression B showed -1.847 implying that a unit increase in ACP will lead to an equal decrease in EPS. However, the relationship is significant at 0.05 level.

H₀₁: There is no significant impact of average collection period on earnings per share of small and medium scale Enterprises.

From the result in the table above, the regression result presented above, the relationship between EPS and ACP is negative as the co-efficient of regression B showed -1.847 implying that a unit increase in ACP will lead to an equal decrease in EPS. However, the relationship is significant at 0.05 level. Implying that a unit increase in ACP will lead to 18.47% units decrease in EPS of small and medium scale enterprises. Also, the relationship between EPS and ACP proved to be statistically significant as the computed t-statistic is 2.311 and the critical t-statistic is 1.960 at $p < 0.000 < 0.05$. The correlation coefficient represents a high correlation indicating also a strong relationship between the variables. Therefore, based on empirical findings the null hypothesis earlier stated is hereby rejected and the alternate upheld. Thus, there is a significant relationship between average collection period and earnings per share of small and medium scale enterprises in Nigeria.

H₀₃: There is no significant effect of average payment period on earnings per share

From the result in the table above, the regression result presented above, the co-efficient of regression B gave a value of 0.572, showing a positive relationship between Average Payment Period (APP) and Earnings per share (EPS). Implying that a unit increase in APP will lead to 57,2% units increase in EPS of small and medium scale enterprises. Also, the relationship between EPS and APP proved to be statistically significant as the computed t-statistic is 2.468 and the critical t-statistic is 1.960 at $p < 0.000 < 0.05$. The correlation coefficient represents a moderate correlation between the variables. Therefore, based on empirical findings the null hypothesis earlier stated is hereby rejected and the alternate upheld. Thus, there is a significant relationship between average payment period and earnings per share of small and medium scale enterprises in Nigeria.

Working Capital Management and Return on Capital Employed of manufacturing companies

Here hypothesis two and four is tested using regression analysis of the SPSS (version 21) software in order to determine the relationship between working capital management (measured by Average Collection Period and Average Payment Period) and return on capital employed. The analysis is shown below:

Model Summary				
Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.655^a	.430	.394	.53355
a. Predictors: (Constant), ACP1, APP1				SPSS Output (2023)

Coefficients^a

Models		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	Constant	2.493	.457		5.452	.000
	APP1	.249	.111	.383	2.337	.026
	ACP1	-1.861	.382	-.798	-4.873	.000

a. Dependent Variable: ROCE1 **SPSS Output (2023)**

Considering the result of regression for hypothesis two and four, the co-efficient of regression B showed 0.249. this imply that there is a positive relationship between Average payment period (APP) and return on capital employed of manufacturing firm. Also that a unit increase in average payment period will lead to 25,9% increase in return on capital employed. In addition, the relationship is shown to be statistically significant as the calculated t-statistic of 2.337 with 0.026 significant levels is greater than 1.960 critical t-statistics at 0.05 level. However, average collection period showed a negative relationship with return on capital employed with co-efficient of regression value of -1.861. But the relationships showed to be statistically significant at 0.05 levels.

H0₂: There is no significant influence of average collection period on return on capital employed.

From the result in the table above, the co-efficient of regression B showed -1.861. This implies that there is a negative relationship between Average collection period (ACP) and return on capital employed of small and medium scale enterprises. Also that a unit increase in average collection period will lead to 18.61% decrease in return on capital employed. In addition, the relationship is shown to be statistically significant as the calculated t-statistic of 2.337 with 0.05 significant levels is greater than 1.960 critical t-statistics at 0.05 level. The correlation coefficient represents a very high correlation indicative of a very strong relationship between the variables. Therefore, based on empirical findings the null hypothesis earlier stated is hereby rejected and the alternate upheld. Thus, there is a significant relationship between average collection period and return on capital employed in Nigeria.

H₀₄: There is no significant influence of average payment period on Return on capital employed.

From the result in the table above, the correlation coefficient (rho) shows that there is a significant and positive relationship between Target Costing and Return on Equity. The *correlation* coefficient of 0.543 confirms the magnitude and strength of this relationship and it is significant at $p < 0.000 < 0.05$. The correlation coefficient represents a moderate correlation between the variables. Therefore, based on empirical findings the null hypothesis earlier stated is hereby rejected and the alternate upheld. Thus, there is a significant relationship between Target Costing and Return on Equity of Hospitality Companies in Nigeria.

CONCLUSION

This research has established that working capital management has a significant impact on financial performance of manufacturing firms. So every manufacturing company should execute efficient working capital management to make profit and ensure going concern. From the analysis conducted, hypothesis one and three of this study revealed that working capital as measured by average collection period (ACP) and average payment period (APP) significantly impact on earnings per share (EPS). However, while the significance of average collection period is negative, that of average payment period is positive. Therefore, companies should employ more of short term debts (trade payables) in order to increase profitability.

Hypothesis two and four of this study also reveals that working capital management measured by ACP and APP has been established to have significant impact on return on capital employed of manufacturing companies in Nigeria. Therefore, the study concludes that working capital management impact on financial performance of manufacturing firms in Nigeria.

RECOMMENDATIONS

Based on the findings, and the conclusion above, the study made the following recommendations which are believed by the researcher that it will help improve the performance of the manufacturing firms:

1. The management of small and medium scale enterprises in Nigeria should exhibit carefulness in handling of inventory at least to ensure that their inventory level will not be below the minimum Inventory level.
2. Reduce the time at which customers make payments to the company for goods bought.
3. Professionals should be hired by these companies to ensure effective and efficient working capital management.
4. Much attention should be paid to cost of sales to ensure that it will not negatively affect prices of stock.

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