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**THE IMPACT OF WORKING CAPITAL MANAGEMENT ON FINANCIAL
PERFORMANCE OF NIGERIAN LISTED COMPANIES**



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Universiti Utara Malaysia

MASTER OF SCIENCE (FINANCE)

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**THE IMPACT OF WORKING CAPITAL MANAGEMENT ON FINANCIAL
PERFORMANCE OF NIGERIAN LISTED COMPANIES**

By

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UUM
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**Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
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**Pusat Pengajian Ekonomi,
Kewangan dan Perbankan**

SCHOOL OF ECONOMICS, FINANCE, AND BANKING

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ABSTRACT

The aim of this study is to provide an empirical evidence on the impact of working capital management on financial performance of Nigerian listed companies focusing on non-financial companies. A panel data using 226 population for the study was obtained from the Nigerian stock exchange commission (NSEC) for the period of from 2006-2011. The pooled ordinary least square (OLS) and random effects was used for testing the hypotheses of this study. Therefore, the company need to give a specific attention to the variables such as account receivable period, account payable period, and inventory holding period to improve their performance and accordingly attract the investors' attention in making investment decision. Based on the finding of regression result, shows that all variables are positively significant with firm performance except account payable period. Whereas cash conversion cycle is insignificantly related to firm performance. Therefore, the finding on working capital management in Nigeria shows that firms should effectively manage and implement their working capital and standard credit policy in order to improve firm performance.

Keywords: Working capital management; firm financial performance.



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ABSTRAK

Tujuan kajian ini adalah untuk memberikan bukti empirikal mengenai kesan pengurusan modal kerja terhadap prestasi kewangan syarikat tersenarai di Nigeria dengan memberikan tumpuan kepada syarikat bukan kewangan. Satu data panel yang menggunakan 226 populasi bagi kajian diperolehi daripada suruhanjaya bursa saham Nigeria (*Nigerian stock exchange commission*) (NSEC) bagi tempoh 2006-2011. Gabungan kuasa dua terkecil (*pooled ordinary least square*) (OLS) dan kesan rawak digunakan untuk menguji hipotesis kajian. Berdasarkan hal ini, syarikat perlu memberikan perhatian khusus kepada pemboleh ubah seperti tempoh akaun belum terima, tempoh akaun kena bayar, dan tempoh pegangan inventori untuk meningkatkan prestasi masing-masing bagi menarik perhatian pelabur dalam membuat keputusan pelaburan. Dapatan hasil regresi juga menunjukkan bahawa kesemua pemboleh ubah adalah signifikan secara positif dengan prestasi firma kecuali tempoh akaun kena bayar. Manakala kitaran tunai pula didapati tidak berkait secara signifikan dengan prestasi firma. Oleh itu, dapatan kajian ke atas pengurusan modal kerja di Nigeria menunjukkan bahawa syarikat perlu menguruskan dan melaksanakan modal kerja dan melaksanakan dasar kredit standard dalam usaha untuk meningkatkan prestasi firma .

Kata kunci: pengurusan modal kerja, prestasi kewangan firma



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LIST OF ABBREVIATIONS

WCM – working capital management

ARP – accounts receivable period

APP – accounts payable period

IHP – inventory holding period

CCC – cash conversion cycle



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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Financial performance can be defined as how well a company can make a return. Therefore, financial performance is trying to identify the company's weaknesses and strengths by comparing the relationship between the information of the balance sheet and Profit and Loss. Finance is described as a central part of any business. Effective financial management is very essential for a business to expand, grow, and survive. Furthermore, the corporate finance manager on the part of the decisions that concern resource allocation for the companies to stay afloat, this resource allocation has a great bearing on the firm's performance, market value, as well as the risk of the companies. The decision of financial management of some firms is related to three (3) key factors: Capital budgeting, Working Capital Management (WCM), and Capital structure. Upon all the key factors, the WCM is a special area of enormous importance for each firm, because the management of working capital influences almost overall firm's financial performance and liquidity (Appuhami, 2008). A firm's financial performance is usually dependent on the way its working capital has been maintained (Karadagli, 2012). Companies must efficiently and effectively control their working capital. If they could not be able to handle their working capital, then this may perhaps lead to not only a decrease in financial performance but could also have great consequences in financial activities of the company. It is an issue of greater concern and value how can companies control their working capital in a way that would bring a great success to the firm. Therefore, the study of working capital also needs to give adequate attention due

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