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WORKING CAPITAL MANAGEMENT AS A TOOL FOR MANUFACTURING INDUSTRY SURVIVAL IN NIGERIA: AN EMPIRICAL ANALYSIS

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Abstract

Working capital refers to the capital available for the everyday business of an industry. It is define as current assets less current liability. Current assets consist of mainly cash, debtor and stock. While current liabilities comprise creditor and accruals. It symbolized investment in all assets that are comprehended in one trading. The need for working capital to run the day-to-day business activities cannot be over emphasized. Investment in current assets such as inventories and debt (account receivable) is apprehended during the operating cycle, which is habitually less than a year. The continuity of the business depends largely on the administration of the working capital. For instance, if working capital is mismanaged incessantly closure of such business is to be anticipated. Following findings were gotten; There is no easy way to determine the exact amount of gross or net working capital for any firm, there is no specific rule as to how current asset should be financed. It is met feasible in practice to finance current assets by short-term source only, also there is seasonal change in demand for some manufacturing products and the following were recommended; Buying of raw material: How much investing to order it should be substantial enough for production requirements, manufacturing the product: What choice of product technology, management strategy applies have with vivid relationship with subordinates to carry out effective control, collection of Cash. How to collect either by the short term, or long-term borrowing, suitably, short-term finance. How there are measures improve working capital management in organizations and so on.

Keywords: Working capital, investment, current liability, current asset, manufacturing industry, shareholders' wealth

INTRODUCTION

Working capital refers to the capital available for the day-to-day business of an industry. It is describe as current assets less current liability. Current assess include mainly cash, debtor and stock. While current liabilities include creditor and accruals. It represents investment in all assets that are realized in one trading. The need for working capital to run the day-to-day business activities cannot be over emphasized. The major objective of every firm is to maximize shareholders wealth. Investment in current assets such as inventories and debt (account receivable) is realized during the operating cycle, which is usually less than a year. The continuity of the business depends largely on the management of the working capital. For instance, if working capital is mismanaged continuously closure of such business is inevitable.

The concept of working capital is used in two ways investment in current assets. Net working capital means the difference between current asses and current liability and therefore, represents that position of current asset which has to finance either from long term forms or bank borrowing. The financing of current assets also involves a tradeoff between risk and return. A firm cans choose from short or long-term source of finances. If the firm used more of short-term form for financing both current and fixed assets it financing policy is considered aggressive and risky. It financing policy will be considered conservative. If it makes relatively more use in financing it assets. A balance approach is to finance permanent assets by long time success and temporally current assets by short-term sources of finance. 'Theoretically short-term debt is considered to be risky and costly to finance permanent current assets.

This is meant to tackle the following problems, such as wanting to know the difficulties in identifying the best source of financing current in some company in Nigeria, so as to be able to identify the difficulties in maintaining the right amount of working capital on a continuous basis. This is also meant to identify the failure of efficiently and effective use of working capital in the day-to day running of business of some Nigeria companies, to know the inability to determine their working capital requirement. In addition to this, it is meant to tackle the issue of one been able to identify what are the difficulties in determining the optimum shareholders wealth.

The following will be the relevant objectives to the study. The relevant objectives of the study would be to determine the source of finance (long term financing short term financing and spontaneous financing) that can be adopted in financing current assets. It will also be to determine the level of investment in current asset in order to meet the need of excessive working and inadequate working capital. Also, the reason for the relevant objectives of the study is to ascertain the need for working capital in the day-to- day running of the business activities. More so, it is to also identify those factors which generally influence working capital requirement of some companies in Nigeria. In addition, it is also to be able to appraise the significance of

cash management as it form part of the smallest passion of the total current assets, yet management considerable time is far spent in managing it.

The pertinent objectives of the study also helps to determine the optimum level of fixed assets and currents assets needed to support a particular level of output.

This is to assist in studying or determining the optimum level of current assets that should be required in maximizing shareholders wealth, also the study will focus on attempting to provide solutions as to how a company can manage its inventories, debtors and suppliers credit and how it can reduce its operating cycle. This study should also assist in knowing the danger of excessive working capital so that the problem of defective credit policy and slack collection period can be tackled, and more so, for the relevant areas of cash management and control since cash management involves managing the monies of the firm in order to maximize cash available and interest income in any idle funds.

LITERATURE REVIEW

Theoretical and Empirical Review

There are various definitions of working capital as suggested by previous writers on the subject. Howard (2001), defined working capital as" constituting those assets held for current use within a business less the amount due to those who avail settlement in shaft-term for the value supplied in whatever form". These definitions focus on the matching to the current amount due to creditors and those due from debtors. Indeed here, emphasis is extensively laid on the liquidity or otherwise of an enterprise wherever mention is made of its working capital positions.

Kehinde (2005) sees working capital as the fund flow, it is the required necessary for day-to-day running of the business. It includes cash, Inventory, Account receivable, Accruals, which constitute sources of short-term fund.

Pandey (2002) suggested two basic concepts of working capital-net and gross concept. According to him, Net working capital represents the different between current asset and current liabilities of an organization. Where current assets are those assets which are easily convertible to cash within an accounting year while current liabilities are those claims of outsiders which are expected to mature for payment, within an accounting year.Net working capital can therefore be measured in terms of positive or negative working capital depending on whether current assets exceeds current liabilities and vice versa. Pandey equally suggested the Gross working capital to involve the firm's investment in current assets.

This definition of Gross working capital is in line with the opinions of Weston and Bringham (2001) which suggested that working capital should represents the firm's investment in short term assets such as cash, short term securities, discount receivables, inventories etc.

Weston and Bringram (2001) further described the concept Net working capital as the "efforts of the firm to make adjustment to short-run changes" and that it represents the development to which the firm must make prompt and effective responses" This statement emphasized the need for policy implantation by the firm on the management of its short-term portfolio.

METHODOLOGY

The Data

Information from the primary sources was collected through the use of questionnaire administered by the researcher to collect what could be called genuine information and it is the information generated from the questionnaires responses formed this sources. Also some questions were asked in form of interview from the finance department of the case study.

The questionnaire were designed to contain ordinary variables of Agree, Disagree, I don't know answers. Questions were drawn accordingly in order to reflect the back ground information about the management of working capital funds and requirement of the case study used in this research work i.e. Guinness Nigeria plc, Lagos.

Further, information from secondary sources was gathered through the use of available case study such as library materials which include relevant textbooks, seminar papers, journals and pamphlets.

Sampling

Because of the large population of workers in Guiness and the need for the paper, non-random sampling method was adopted across the gender, 50 questionnaires were distributed and 45 were returned.

Analytical Approach

In the analysis of the data, chi-square was the statistical tool used in analyzing draw data obtained through the questionnaire distributed.

Statistical operation

$$\sum \frac{(O - E)^2}{E}$$

Where

O = Observed frequencies,

E = Expected frequencies

The analysis of the data collected is done through the subsequent analysis of the data using SPSS statistics 17.0

ANALYSIS

The data generated in the course of the research is represented with some detailed analytical model as indicated in the previous chapter on methodology. However, Analysis of data generated from direct information through the administration of the questionnaire will be evaluated," and interpreted. A total number of fifty (50) questionnaire were administered to respondents in their offices, forty (45) were returned while five (5) questionnaire were not processed.

Chi Square - Decision rule

Using the significance of (0.05), that is 5% and the chi-square asymptotic significance of (0.000), the result is significant and thus-we accept the alternative hypothesis and reject the null hypothesis.

Alternatively, the calculated chi-square value (16.53) with 2 degree of freedom at 95% confidence level is greater than the table value of 5.9914, (0.05), which makes the chi-square calculated to fall at the critical or rejection region. As a result of this, the Null Hypothesis is rejected; while the alternative hypothesis is accepted Investment in current asset represents a very significant portion of the total investment in asset.

The statistical analysis above shows that the asymptotic significance (0.000) of the tested variable is less than 0.05 decision criterion. The result is significant; hence we accept the alternative hypothesis (Hi) that there is a direct relationship between a firm's growth and its working capital needs and reject the null hypothesis (H_0).

Alternatively, the calculated chi-square value (17.73) at 95% confidence interval with 2 degree of freedom is greater than the table value of 5.9914, (0.05), which makes the chi-square calculated to fall at the critical or rejection region. Hence, the Null hypothesis is rejected, while the alternative hypothesis is accepted.

Interpretation

The statistical analysis is conducted above on the two (2) hypotheses, revealed that the asymptotic significance of each of the tested hypothesis is less than 0.05 decision criterion. Hence, the null hypothesis is rejected, and alternative hypothesis is accepted.

According to the respondents, substantial amount will always be needed to finance working capital sources of finances. It was also discovered that there is a direct relationship between a firms growth and its working capital needs.

CONCLUSIONS

The main focus of working capital management is as follows:

- ✓ The organization of investment of current assets.
- ✓ How should the current assets be finance

However, the consideration of investment in current assets should avoid two danger levels:

- ✓ Excessive investment in current assets.
- ✓ Inadequate investment in current assets.

Excessive investment in current assets should be avoided because it impairs the firms profitability, as idle investment earns nothing. On the other hand, inadequate amount of working capital can threaten solvency of the firm. The conclusion to be drawn from the findings are grouped below into three sub heading: Management of working capital, Effect of excessive and inadequate working capital and, Problems faced in working capital management

Management of Working Capital

The financial manger must determine levels and composition of current assets. He *must* ensure right sources of finances are sourced to finance current assets. There are many aspects of working capital management, which makes it an important function of the financial manger. Some of the aspects are:

Time: Working Capital Management requires much of the financial mangers time.

Investment: Working Capital requires a large portion of the total investment in assets.

Criticality: Working Capital Management has great significance on all firms but it is very critical for small firms.

Growth: The need for working capital is directly related to the firms growth.

Investment in current assets represents a very significant portion total investment in assets. Working capital management is critical for all firms, particularly for small firms. A small firm may not have much investment hi fixed assets, but it has to L in current assets.

There is a direct relationship between a firm's growth and its capital needs. As sales grow, the firm growth needs to invest more in inventories and debtors. These needs become very frequent and fast when sales grow continuously.

In conclusion, precaution should be taken for the effective and efficient management of working capital. The finance manager should pay particular attention to the levels of current assets and financing of current assets. To decide the levels and financing of current asset, the risk return implication must also be evaluated.

Effect of Excessive and Inadequate Working Capital

Since an organization should maintain a sound working capital, should have an adequate working capital to run its operation. Excessive working capital means holding cost and idle funds, which earn no profit for the firm. The dangers of excessive working capital are as follows:

- It results in unnecessary accumulation of inventories. Thus the waste theft and losses increases.
- It is an indication of defective credit policy and slack collection period consequently, high incidence of bad debts which adversely affects profits.

Inadequate working capital is also bad arid can lead to the followings:

- It stagnates growth
- It. becomes difficult for the firm to undertakes profitable projects for non-availability of working capital funds.
- It becomes difficult to implement operating plans and achieve the firm's profit target.
- Operating inefficiencies creep in when it becomes difficult even to meet day-to-day commitments.
- Fixed assets are not efficiently utilized for the lark of working capital funds. Thus, the firms profitability deteriorates

Problems Face in Working Capital Management

- There is no easy way to determine the exact amount of gross or net working capital for any firm.
- There is no specific rule as to how current asset should be financed. It is met feasible in practice to finance current assets by short-term source only.
- There is seasonal change in demand for some manufacturing products.

RECOMMENDATIONS

It is access that if these recommendations are followed to the letter, a typical manufacturing will able to invest its current asset adequately and effectively. Useful and unbiased recommendations are set out below:

- *Buying* of *raw material:* How much investing to order it should be substantial enough for production requirements.
- *Manufacturing the product:* What choice of product technology, management strategy applies have with vivid relationship with subordinates to carry out effective control.

- *Collection* of *Cash.* How to collect either by the short term, or long-term borrowing, suitably, short-term finance. How there are measures improve working capital management in organizations.
- There should be recruitment of professional and competent quality personnel into the account department.
- There should be adequate incentive for staff in cash kind. Provision of favorable working conditions, payment of salaries and allowances regularly to boost their morale.
- There should be proper organization of cash and stock to avoid the problem of half hazard transactions.
- There should be segregation of division of labour among staff in the department to avoid conspiracy by staff to defraud the firm.

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