International Journal of Economics, Commerce and Management
United Kingdom Vol. V, Issue 12, December 2017
http://ijecm.co.uk/ ISSN 2348 0386

WORKING CAPITAL MANAGEMENT AND EFFECTIVE PERFORMANCE OF HOSPITALITY FIRMS IN RIVERS STATE, NIGERIA

ThankGod C. Agwor
Department of Accountancy, Rivers State University, Nkpolu, Port Harcourt, Nigeria
tagwor@yahoo.com

Fyneface N. Akani
Department of Accounting, University of Port Harcourt, Choba, Port Harcourt, Nigeria

Abstract

The study set out to determine the extent of relationship between working capital management and effective performance of Hospitality firms in Port Harcourt, Nigeria. Cross-sectional survey design was adopted for the study. 10 hospitality firms with nine hundred and ninety-eight (998) staff made up the population frame. Stratified sampling technique was used to select 385 members of staff as the respondents, based on Department and work units. The Cronbach's alpha coefficient of 0.86 was obtained to establish the reliability of the instrument. Spearman's Rank Order Correlation was used to test two hypotheses using SPSS17. The results revealed that there is a positive and significant relationship between financing policy and effective performance (rho = 0.561). Also, there is a positive and significant relationship between investing policy and effective performance (rho = 0.497). Conclusively, the study showed that Hospitality firms in Port Harcourt had liquidity challenges and were unable to pay their short term financial obligation as at when due. However, business success depends heavily on the ability of financial managers to effectively manage the components of working capital. Therefore, when private sectors managers implement financing and investing policies, effective performance is promoted. The study recommended among others that, hospitality firms should engage adequate working capital management in order to enhance effective performance. In addition, financing policies and investing policies should be effectively implemented so as to promote effective performance of hospitality firms in Nigeria.

Keywords: Working Capital Management, Financing Policies, Investing Policies, Effective Performance

INTRODUCTION

Working capital entails the collection of current or short term assets and liabilities such as cash and bank balances, account receivable and payable, bank overdraft and short term bank loans, short term borrowings, inventories and maturing debts and capital (Ngerebo, 2002). It is on this premise that Umoh, (1993) asserts that working capital management refers to the management of these short term assets and liabilities.

The importance of working capital management (WCM) in both public and private sector cannot be overemphasized. Reason being that its impact on performance is evident in past studies. According to Vanhorne (1998), working capital management is an important tool because the day-to-day running of firm depends on its component. The components of working capital management are conservative working capital management policy and aggressive working capital management policy (Gitmen, 2005; Moyer et al., 2005; Brigham & Ehrhardt, 2004).Also, according to Valid, Mohen & Mahammadreza (2012), working capital management plays a significant role in determining success or failure of organization in business performance due to its effect on organisation's profitability which is dependent on liquidity.

Business success depends heavily on the ability of financial managers to effectively manage the components of working capital (Filbeck & Knieger, 2005). Public sector especially, the hospitality sub-sector in Port Harcourt had liquidity related challenges and were unable to make good their short term financial obligations as and when due. At the moment, studies conducted in Nigeria to expose the impact of working capital management on performance have not addressed both aggressive and conservative working capital policies. For example, Nyamao et al (2012) considered WCM in terms of efficiency of cash inventory and receivables management. While Mathuna (2009) sees working capital management in operating terms. It is on this premise that the study was carried out.

The main purpose is to examine the relationship between working capital management and effective performance of hospitality firms in Rivers State, Nigeria . while the specific objectives include: (1) the investigation of the extent of relationship between financing policy and effective performance and (2) the determination of the extent of relationship between investing policy and effective performance.

The above stated purpose and objectives necessitated the following fundamental issues, in form of questions: (1) to what extent does financing policy promote effective performance and (2) to what extent does investigating policy influence effective performance.

LITERATURE REVIEW

Theoretical Framework

Recent studies espouse modern theories which offer two alternative strategies of working capital management. These include; the conservative working capital management policy and aggressive working capital management policy. The literature on working capital management policies contain a lot of debate in its risk and return perspectives (Gitman, 2005; Moyer et al, 2005; Brigham & Ehrhardt, 2004). Looking at the aggressive working capital management policies, there are more association with higher returns and risk, while conservative working capital policies has both lower risk and returns (Gardner et al 1986; Weinrannb & Visscher, 1998).

Apart from the above theories, Raheman and Mohammed (2007) assert that effective policies must be formulated for the individual components of working capital. The financial and investing policies were formulated on the basis of the above assertion.

Buttressing on the Dimensions of Working Capital Management, Raheman and Mohammed (2007) formulated two policies for each components of working capital management which include financing policies and investing policies. It is on this premise, that the study adopts financing and investing policies as the dimensions of working capital management.

Working Capital Management

The concept of working capital management has being an old practice in financial decision making, in Nigeria and the globe at large. It is all about the management of short term assets and liabilities in organizations. In other words, it is the act of ensuring that certain optimum level of liquidity is maintained from time to time. According to Kesimli & Gunay (2011), working capital management refers to investment in current assets and current liabilities which are liquidated within one year or less and is therefore crucial for firm's day-to-day operations.

Working capital could also be seen as the money needed to finance the daily revenue generation activities of the company or organization. No wonder Vahid, Mohsen and Mohammadreza (2012) assert that working capital management plays a significant role in determining success or failure of organization in business performance due to its effect on firm's profitability as well as liquidity. Business success depends heavily on the ability of financial managers to effectively manage the components of working capital.

In discussion relating to the Classification of Working Capital Management, Kargar (1994) and Ngerebo (2002), identified two forms of working capital which include; quantitative (gross concept) and qualitative (net concept) working capital. Working capital management could also be classified on the basis of financial reports. Where, information relating to working capital can be extracted from the statement of financial position or statement of income and expenditure. Therefore, working may be classified as cash working capital and permanent working capital.

Effective Performance

Sollenberger and Anderson (1995), affirm that effective performance is the measure of how efficient the enterprise used the available resources in achieving its goals and objectives. In support of their view, Stoner (2003) opined that effective performance is the ability to operate efficiently, profitably, survive, sustain growth and react to the environmental opportunities and threat.

Empirical Review

Several studies have examined working capital management and effective performance in different countries with diverse tools. The outcome of the investigation shows that relationship does exist in the results.

Nyamao, Lumumba, Odondo and Otieno (2012) conducted a study to investigate the effects of working capita! Management practices on the financial performance of small-scale enterprises (SSEs) in Kisii South District, Kenya. The study, which adopted a cross-sectional survey research design, found that working capital management practices were low amongst SSEs as majority of them had not adopted formal working capital management routines. Similarly, their financial performance was on a low average. The study concluded that working capital management practices influence the financial performance of small scale enterprise. The study relied on primary qualitative data to measure the working capital management practices, but the present study measured working capital management in terms of aggressiveness/conservatism using secondary quantitative data. The findings of the study also required validation in other areas of the country and among companies listed in the Nigerian Stock Exchange (NSE).

Similarly, Ogundipe, Idowu and Ogundipe (2012) conducted a study to examine the impact of working capital management on the performance and market value of companies in Nigeria. The study used Tobin Q. ROA, EBIT, and RO1 as the criterion variables while the predictor variables were cash conversion cycle; current ratio; current asset to total asset ratio; current liabilities to total asset ratio; and debt to asset ratio. Using correlation and multiple regression analysis techniques, the study established that a significant negative relationship exists between cash conversion cycle and market valuation and firm's performance. The study, however, only focused on short-term financing decisions.

In another study, Vahid, Mohsen and Mohammadreza(2012) investigated the impact of working capital management policies (aggressive and conservative policies) on the firms' profitability and value of listed companies in the Tehran Stock Exchange. The study used panel data and operationalised working capital management policy as conservative/aggressive. The results of the study show that application of a conservative investment policy and aggressive financing policy has a negative impact on a firm's profitability and value. The study adopted the model used by Nazir and Afza (2009) to investigate the relationship between the working capital management policies and profitability of firms listed in the Karachi Stock Exchange (KSE). The study of Nazir and Afza (2009) found a negative relationship between a firm's profitability and its financing policies. Thus, firms that adopt an aggressive working capital policy generate a lower rate of return than those adopting a conservative working capital policy. The study adopted the operationalisation of working capital management as applied in the two studies since Kenya has a different economic setting from Iran and India where the two studies were carried out.

Bhunia and Das (2012) conducted a study to examine the relationship between the working capital management structure and the profitability of Indian private sector firms. The predictor variables used in the study were ratios that affect working capital management and included the following: current ratio, liquid ratio, cash position ratio, debt-equity ratio, interest coverage ratio, inventory turnover ratio, debtors' turnover ratio, creditors' turnover ratio, and working capital cycle. Return on capital employed was used as a proxy for profitability. Using multiple regression analysis, the study found a weak relationship between all the working capital management constructs and profitability. The study should, nevertheless, have been extended to identify the other factors that drive profitability in addition to working capital management.

In a study conducted to determine the effect of working capital management on profitability of Indian firms, Sharma and Kumar (2011) used a sample of 263 non-financial firms listed on the Bombay Stock Exchange during 2002 to 2008. Data were analysed using OLS multiple regression. The study found a positive relation between WCM and firm profitability, although the relationship between cash conversion cycle and ROA was not statistically significant. The study also found that account receivables are also positively related to ROA and that account payables are negatively related to ROA. The results assert that Indian firms can increase profitability by increasing cash collection cycle. This study contradicts other studies (Ogundipe, Idowu & Ogundipe, 2012; Dong,2010; Mathuva 2009). The scholars attributed this difference to the fact that India is an emerging market.

A study by Dong and Su (2010) concluded that a firm's profitability and liquidity are affected by working capital management. The study used pooled data for the period between 2006 and 2008 to assess the companies listed in the Vietnam Stock Exchange. The study focused on cash conversion cycle and related elements to measure working capital management. The study found that the relationships among these variables were strongly negative, suggesting that profit is negatively influenced by an increase in cash conversion cycle. The study also found that profitability increases as the debtor's collection period and inventory conversion period reduce. The present study operationalised working capital management in terms of aggressiveness and conservatism as measured by the proportion of current liabilities to total assets and total liabilities.

Mathuva (2009) examined the influence of working capital management components on the profitability of 30 firms listed on the Nairobi Stock Exchange, The study used the cash collection cycle to measure working capital.

Afanda (2015) examined the relationship between working capital management and profitability of cement companies in Kenya, the study consulted all the cement companies in Kenya, the findings of the study indicate that efficient working capital management increase profitability and negative relationship exists between measure of working capital management and profitability variable, the study recommends that the management of the cement manufacturing companies should undertake working capital management from an informed position, while the regulatory bodies should formulate policies that will be supportive of efficient management of working capital.

Akindele & Odusine (2015) investigated working capital management and firm profitability of (twenty-seven) 27 Nigeria quoted companies. The study adopted the use of secondary data. The result of the study indicated a strong and negative relationship between the measure of working capital management (WCM) and profitability (ROA). Accordingly, the implication of the findings is that for a firm to keep higher financial performance, it must be efficient in managing its working capital through keeping the cash conversion cycle as low as possible.

Having considered the interaction between the predictor and criterion variables against the background of empirical reviews, the following tentative assertions are presented to highlight the hypothesized relationship of the study variables:

(1) Ho_1: There is no significant relationship between financing policy and effective performance

(2) Ho_2: There is no significant relationship between investing policy and effective performance.

METHODOLOGY

The study was a cross sectional survey. The study population is nine hundred and ninety-eight (998) staff from ten (10) selected Hospitality firms in Rivers State, which was selected using the stratified random sampling. The sample size was 311. Therefore, 311 copies of the research instrument were used for the analysis. A six-item scale each was developed for the dimensions of the independent variable (financing policy and investing policy). For test of reliability of the scale, Cronbach Alpha method was used to establish coefficient of 0.86. Spearman's Rank Correlation was used to test the two null hypotheses using SPSS, Version 17.

ANALYSIS AND RESULTS

The Demographic Characteristics indicates that frequencies and descriptive were used in the primary analysis. The study sample was described using sex, age, work experience, position and educational qualification. The data shows 67.5% of the respondents were males while 32.5% were females. 13.8% of the respondents were within the age bracket of 25 to 35 years, 40.5% were within the age bracket of 36 to 45 years while 45.7% were within the age bracket of 46 years and above. On work experience, 7.4% of the respondent had worked for 1- 5 years, 25.1% have worked for 6 -10 years, 28.7% have worked for 11 - 15 years while 38.6% had worked for 16 years and above. Similarly, the data indicates that 27.0% of the respondents were top management staff, 62.1% were middle management staff while 10.9% were lower management staff. Finally, on educational qualification, we had following distribution - 26.7% diploma, 53.6% HND/B.Sc and 19.6% M.Sc and above.

The Spearman Rank Order correlation statistical tool was adopted for analysis. The correlation significance (2-tailed) at 0.05 indicated the acceptance of the null hypothesis one (Ho_1), which states that there is no significant relationship between financing policy and effective performance. The detailed result of which are visible in table 1 below.

Table 1: Result showing the relationship between financing policy and effective performance

			Fp_x	Ep_y
Spearman's rho	Fp_x	Correlation Coefficient	1.000	.561*
		Sig. (2-tailed)	.	.000
		N	311	311
	Ep_y	Correlation Coefficient	.561*	1.000
		Sig. (2-tailed)	.000	.
		N	311	311

**Correlation is significant at 0.05 (2-tailed)

The result of hypotheses one above shows that there is a positive and moderate relationship (rho = 0.561) between financing policy and effective performance. This indicates that financing policy affects effective performance of hospitality firms in Rivers State, Nigeria .

The correlation significance (2-tailed) at 0.05 on null hypothesis two (Ho_2), which states that there is no significant relationship between investing policy and effective performance. The indication connotes acceptance of the hypothesis. The detailed result are shown in table 2 below.

Table 2: Result showing the relationship between investing policy and effective performance

			Ip_x	Ep_y
Spearman's rho	Ip_x	Correlation Coefficient	1.000	.497*
		Sig. (2-tailed)	.	.000
		N	311	311
	Ep_y	Correlation Coefficient	.497*	1.000
		Sig. (2-tailed)	.000	.
		N	311	311

**Correlation is significant at 0.05 (2-tailed)

The analysis of hypotheses two above shows that there is a positive and moderate relationship (rho = 0.497) between investing policy and effective performance. This shows that investing policy influence effective performance of hospitality firms administration in Nigeria.

DISCUSSION

This study examine the relationship between the dimensions of WCM (financing policy and investment policy) and effective performance. The result shows that there was a positive moderate relationship between the variables. This is against the finding of Nazir & Afza (2005) who found a negative relationship between firm's profitability and its financing polices. Thus, their submission that firms that adopt an aggressive working capital policy generate a lower rate of return than those that adopt a conservate working policy. But from the finding of this study, here in Nigeria as financing policy increases effective performance also increase. This is in support of the view of Nyamo, Lumumba & Oteno (2012). The second hypothesis tested to identify the strength of the relationship between investment policy and effective performance. The result shows that there was a positive moderate relationship between the two variables. This is in line with the finding of Mathera (2009) that establishes strong relationship between firm's performance and investing working capital management policies in Kenya.

CONCLUSION

The study shows that business success depends heavily on the ability of financial managers to effectively manage the components of working capital. Therefore, when private sector companies especially hospitality firm administrators implement financing and investing policies, effective performance is promoted. In order to forestall shut down of business operations and meet up the challenges of precarious liquidity situation and crisis that may arise in the hospitality firms, the following steps are deemed necessary: financing and investing policies should be effectively implemented so as to promote performance. There is need for regular monitoring of financial decision implementation by the firms audit unit and managers of the hospitality firms should engage adequate working capital, so as to enhance effective performance.

REFERENCES

Anderson, L. K., & Sollenberger, H. M. (2011). Managerial accounting. Cincinnati, Ohio: College Division, South-Western Pub. Co..

Baridam, D.M. (2001). Research Methods in Administrative Science, 2nd Edition, Port Harcourt Sherbrook Associates.

Brigham, E. F. &Ehrhardt,M C. (2004. Financial Management: Theory and Practice, 11th Edition, South-Western College Publishers, New York.

Brigham, E. F., & Ehrhardt, M. C. (2013). Financial management: Theory & practice. Cengage Learning.

Chai, I. (2001). Unit root tests for panel data. Journal of International Money and Finance, 20, 249-272.

Dong, B., Li, N., Zheng, L., Yu, L., & Inoue, T. (2007). Surface adsorption and micelle formation of surface active ionic liquids in aqueous solution. Langmuir, 23(8), 4178-4182.

Filbeck, G. & Krueger,T.M. (2005). An Analysis of Working Capital Management Results

Filbeck,G. & Krueger ,T, (2005). Industry Related Differences in Working Capital

Gardner M J, Mills D L & Pope R A. (1986).Working Capital Policy and Operating Risk: An Empirical Analysis, Financial Review, 21(3), 31

Gardner, R. C., & Lambert, W. E. (1972). Attitudes and Motivation in Second-Language Learning.

Gitman, L. A. (2005). Principles of Managerial Finance, 11th Edition, Addison Wesley Publishers, New York.

Gitman, L. J. (2006). The Interactions between the Investment, Financing, and Divided Decisions of Major U.S. Fins. Financed Review 36(3), 208-209.

Gunay, S., & Kesimli, I. (2011). The impact of the global economic crisis on working capital of real sector in Turkey. Business and Economic Horizons, (04), 52-69.

Kargar, J., & Blumenthal, R. A. (1994). Leverage impact on working capital in small businesses. TMA journal, 14, 46-46.

Kidder, L. (1981). Research Methods in Social Relations. New York McGraw-Hill.

Kidder, L. H., & Fine, M. (1987). Qualitative and quantitative methods: When stories converge. New Directions for Evaluation, 1987(35), 57-75.

Mathuva, D.M. (2009). The Influence of Working Capital Management Components on Corporate Profitability: A Survey on Kenyan Listed Firms. Research Journal of Business Management, 3, 1-11.

Moyer R C, McGuigan J, R. & Kretlow, W. J. (2005), Contemporary Financial Management 10th Edition, South-Western College Publication, New York. Nairobi Securities Handbook (2006-2012). Retrieved August 31 2013, from http://www.nse.co.ke

Moyer, S. E., Hunt, A., & Shevlin, T. (1996). Managing Interacting Accounting Measures to meet Multiple Objectives: A Study of LIFO Firms. Journal of Accounting and Economics, 21(3), 339-374.

Nazir, M. S., & Afza, T. (2009). Impact of aggressive working capital management policy on firms' profitability. IUP Journal of Applied Finance, 15(8), 19.

Ngerebo, T.A (2002). Corporate Finance Management1: The Blueprint Limited, Port Harcourt, Nigeria.

Nyamao, N. R., Patrick, O., Martin, L., Odondo, A. J., & Simeyo, O. (2012). Effect of working capital management practices on financial performance: A study of small scale enterprises in Kisii South District, Kenya. African Journal of Business Management, 6(18), 5807.

Ogundipe,S.E., Idowu.A. &Ogundipe,L.O. (2012).Working Capital Management, Firms Performance and Market Valuation in Nigeria, International Journal of Social and Human Sciences, 6, 143-147.

Raheman, A., & Nasr, M. (2007). Working capital management and profitability–case of Pakistani firms. International review of business research papers, 3(1), 279-300.

Sharma, S. (1995). Applied multivariate techniques. John Wiley & Sons, Inc..

Stoner, E. C. (1938). Collective electron ferromagnetism. Proceedings of the Royal Society of London. Series A, Mathematical and Physical Sciences, 372-414.

Umoh, P.N. (1993). Principles of Finance: page Publishers, Lagos, Nigeria.

Vahid, T. K. , Mohsen, A. K. & Moharnmadreza, E.(2012) .The Impact of Working Capital Management Policies on Firm's Profitability and Value: Evidence from Iranian companies; International Research Journal of Finance and Economics, 88, 155-162.