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Effective Use Of Working Capital As An Antidote For Prudent Financial Managementof An Organization:A Case Study Of Selected Firms In Nigeria

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ABSTRACT
The study examines the effective use of working capital in the performance of business organization in Nigeria. The hallmark of a good business management is the ability to prudently utilize working capital to maintain a solid balance between growth, profitability and liquidity. Lack of contingency plans as well as absence of standardized policy for management of working capital to maintain a solid performance in business gives a barrier. This paper therefore stresses the need for a formal training to be given to staff involved in activities related to working capital management. Optimal level of performance of working capital should be the strictadherence to working capital policy.

Key words: Working Capital;Financial Management; Nigeria.

I. Introduction.

The purpose of working Capital Management is to ensure that the firms have enough cash flow to run its operations in order to meet the short - term obligations and to maintain the level of investment in current assets.Working Capital is part of the total assets of the Company. Generally, it is the difference between current assets and current liabilities. Practically speaking, it is the daily, weekly, and monthly cash requirement for the operations of the business. Therefore, working Capital Management is a process of Managing short – term assets and liabilities. It makes sure that a firm has sufficient Liquidity to run its operations smoothly. It should be said that the performance of business organizations is usually viewed by the extent to which the organizational objectives are met. The components and determinants ofWorking Capitalis to see to the achievement of this objective of Working Capital Management:

The efficiency of Working Capital Management can be measured through various methods and ratios. Financial analysts typically compare the Working Capital cycle and other Working Capital ratios against industry benchmarks or a company's pears. The most commonly used ratios and measures are the current ratios, days of sales outstanding, days of inventory outstanding, and days of payable outstanding.Liquidity is often tight in small businesses. For this reason, the scale of their operations and investment in Working Capital is a drag on Liquidity.The majority of small businesses cannot fund the operating cycle with account payables. As a result, they have to rely on the cash generated internally and, in some cases;cash is injected from their owners. Hence, efficient Working Capital Management will allow a business to run efficiently and potentially, free up some Cash. This could be used to pay down debt or invest in a profitable study.

Some components of Working Capital and Determinants

Working Capital	**Determinants (Internal)**
Inventory: Raw materials .Work – in – progress . Finished products	.Nature and size of the business .Operating efficiency
Amount owed by customers Receivables:Prepayments by suppliers	 .Firm's production policy
Prepaid expenses Other current Assets: :Operating cash	.Firm's credit policy .Availability of credit
.Amounts owed to suppliers	.Growth of the business

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Payables: Prepayments by customers	.Profit margins
Other current. Short – term debt	.Dividend policy
Liabilities: Accrued expenses	

Working Capital = Inventory + Account Receivables + other current Assets – Accounts payables – other current liabilities. (That is, Current Assets – Current Liabilities).

The daily operations of firm activities are sustained by fund available for such operations. These funds are referred to as Working Capital(NJM, 2021). Kurfi (2006) refers to Working Capital Management as all aspect of the administration of both current assets and current liabilities. Thus, a proper Working Capital Management should ensure that current assets holdings are extended to the point where the marginal returns on increase in such assets are just equal to the cost of capital required to finance the increase, while current liabilities should be used instead of long – term debt which would lower the average cost of Capital.

Working Capital Management determines the success or otherwise of the company. Singh and Asress (2011) reported that well organized Working Capital Management has a considerable participation on performance and short – term solvency of businesses. Nwankwo and Osho (2010) added that working Capital Management involves the adequate mixture of current Assets and Current Liabilities for keeping the business to run efficiently, particularly in terms of energy, goodwill and time. Business performance is the rate at which business success are measured; business performance can be assessed on the basis of its financial performance. The term financial performance refers to the money generated as a result of carrying out a particular business activity, it can also be described as the reward for the entrepreneur's investment in the business.

The business performance or profitability as it is otherwise called refers to the performance of business measured in terms of return on asset (ROA), return on equity (ROE), and net profit margin, earning per share, return on investment (ROI), return on capital employed, etc. The ability of the firm to remain in business for a long time and continue to exist as a going concern is greatly dependent in the efficient Management of its Working Capital. Although profitability may be considered as the governing factor of a business, nevertheless, if Working Capital is not effectively managed, the business may come to a halt, even if the business was otherwise a successful and profitable company.

It is essential that at any point in time a business should be in a position of stabilized solvency. That is, in a position to pay its debt as at when due and take advantage of business opportunities as they come or meet contingencies that may be reasonably visualized, a business may have a large amount of surplus assets and liabilities but if such asset are fixed, there will probably be a great difficulty in finding them ready to meet their current liabilities without having recourse to borrowing on the asset and consequently working capital plays a vital role. Considering the significance of working management in determining business success and the continued failure of small business due to liquidity problem, the research centered on the issues and different tools of Working Capital Management which will invaluably contribute to achieving efficiency,for example, in the publication of Michael Segun and Taiwo (2017) where Muhammed (2015) discovered a positive significance relationship between creditors payment period and financial performance. This concludes that efficient working capital management improves performance.

Working Capital Management therefore is the managerial accounting strategy focusing on maintaining efficient level of both component of working capital, current assets and current liabilities in respect of each other. It ensures that a company has sufficient cash flows in order to meet its short – term debt obligations and operating costs. The more of a business finance invested in working capital, the less is available for long – term investment in long – term assets. It is often believed that more is earned from long – term investment than from short – term investment and as such, a business would want to minimize it's investment in working capital and to concentrate its resources on investment with a longer life than current assets being financed by current liabilities.

However, in some economic situations, there are some understandings which suggest that it is better for a business to keep its resource liquid by investing in current assets including placing any surplus funds in short – term financial investment. It is argued that the return from long – term physical investment is less than the return from short – term financial investment. Being liquid also enables a firm take advantage of opportunities as they present themselves.

In Nigeria, most firms do not have a standardized policy for the management of working capital. Although, most firms unconsciously engage in Working Capital Management; the majority do so by rule of thumb thus making it a common practices to increase or reduce their holding of working capital arbitrarily. A proper approach to working capital management in firms is necessary. In this vein, proper cash management techniques must be applied to determine the target cash balance as suggested by Ross et al (2002) in her Article "the Baymot, Miller orr and Barenek Models." Standardized inventory and debt management practices should be done in such a way that both parties considered appropriately.

In some of the firms visited in the course of this research, most do not have lay-down working capital management policies. Some have in certain areas, but banks however maintains fairly established rule regarding the maintenance of a fixed proportion of their deposits in form of cash.

II. REVIEW OF RELATED LITERATURE(Conceptual Issues).

2.1 Conceptual review according to Nurein (2014) and Finau (2011) defined working Capital as the excess of current assets over current liabilities. This definition actually brought together the basic tenents of Working Capital (current assets and current liabilities). There is a consensus among scholars with respect to the definition of working capital which is an amount of money available to finance the organization's short – term debt obligations. The availability of this short – term fund is a function of excess of current assets over current liabilities.While the definition of Working Capital remains same among scholars, effective management of firms' working capital is what put firms apart. This is because, while some managers may exercise due care and diligence in the management of firm's current assets and current liabilities, other managers may result to the use of intuition, rule of thumb and personal judgment which could mar effective Working Capital Management. Organization's Working Capital Components are categorized according to Arnold (2008) and Gitman (2009), into three main components. These are: Inventory Management consisting of raw materials, work – in – progress and stock of finished goods.

Account receivables and payable management which are the amount recoverable and amount owed to other firms and individuals in the ordinary course of business of the firm, and finally cash management which requires the formulation of strategies to facilitate early collection of debt owe to the firm and delaying payments for credit by the firm (Block &Hirt,1992 and Lantz, 2008). This enables firms to have adequate cash balances to discharge short – term debt obligations when they fall due.

According to Aremu, Ekpo, Mustapha and Adedoyim in their article of (2013), claimed that firm's ability to identify appropriate capital requirements and sources of raising funds will help in strengthening their operation as inadequate capital is the major causes of business failure.

Alnoor, Charles, Srikant and George (2008) identified working capital as current assets minus current liabilities. Kehinde (2011) explained that working capital is part of company's total capital which is employed in the short – term operations (Nigeria) Journal of Marketing (NJM) Vol,7.No.1 (March, 2021).Onaolapo and Kajola (2015) classified working capital into gross working capital and net working capital and stated that gross working capital is regarded as the amount invested in a firms current assets while net working capital is the excess of current assets over current liabilities.Working Capital is an important issue during financial decision making policy since it's being a part of investment in asset that requires appropriate financing investment. For the purpose of having a proper insight into the importance of working capital management on the performance of organizations, the research work well be restricted to firms engaged in the manufacturing sector. This decision become necessary because firms such as banks, Insurance companies and other service providing organizations may not have all the major components of working capital as enumerated above.

2.2. **Working Capital**

This is a term used to describe the financial resources available for firm's day to day operations. Working Capital is defined as the excess of current assets over current liabilities. It forms a part of the aggregate capital of the business. A business needs working capital to fund its short-term obligations. Typically, firms with an optimum level of working capital indicate efficiency in managing its operations. This also enables the firm to pay for its short –term bills and day–to-day operational expenses.Working Capital is one of the most important components of business. It is the heart and mind of a successful enterprise. Business cannot think of functioning successfully without sufficient working capital to meet its obligations.In fact, insufficient working capital amounts to a shortage of resources.Whereas excessive working capital results in increased cost for the business. Thus, it is important to have an optimum quantity of working capital to run a business. To maintain the liquidity position of a firm, and enhanced an excellent performance of the organization, most companymanagers are concerned about maintaining an adequate, but not excess component of the working capital.

Furthermore, you must evaluate the return on the number of funds invested in the business in the form of working capital. Many a time, business fail not because of a lack of profits but because of insufficient funds required to run its day – to-day operations. Thus, working capital management plays an important part in running a successful business. This is because it greatly impacts on the liquidity and profitability of the business.Therefore, Working Capital is a measure of business liquidity position, operational efficiency, and short – term financial soundness. It's therefore sufficient to conclude that working capital is a financial metric that helps plan for future needs and ensure the company has enough cash and cash equivalents to meet short – term obligations such as unpaid taxes and short – term debt.

2.3. **Types of Working Capital**

Working Capital can be said to be of two main types depending upon the periodicity and concept of the business classified, such as; permanent Working Capital and Temporary Working Capital.And so, for the purpose of this research study, we are going to expatiate on these two types of working capital .This becomes necessary as permanent working capital decisions are analyzed differently from decisions to make temporary adjustment in the working capital balances.

2.4. **Permanent Working Capital**

This is the portion of the working Capital that remains permanently tied up in current assets to undertake business activity uninterruptedly. In other words, permanent working capital is the least amount of current assets needed to carry out business effortlessly. Thus, it is also known as fixed working capital. The amount of fixed working capital required by a business depends upon the size and the growth of the business. For instance, minimum cash or stock required by a firm to undertake the operational activities of the business. Permanent working capital can be further subdivided into two categories, vis:

- **Regular Working Capital:**

This is the least amount of Capital required by a business to fund its day – to- day operations of a business; such as for payment of salaries and wages and overhead costs for processing raw materials.

- **Reserve margin Working Capital.**

Other than day – to – day activities, the business may need some amount of capital for exigencies. Reserve margin Working Capital is simply an amount of Capital kept aside other than the regular working capital. These reserve funds are kept differently for exigencies purpose such as shrikes, natural disasters,etc.

- **Variable Working Capital:**

This can be defined as the Working Capital invested for a temporary period of time in the business. As such, it is also called fluctuating Working Capital. It varies with respect to the change in the size of the business or changes in the assets of the business. This variable working capital is further subdivided into two categories, viz:

✓ **Seasonal variable Working Capital:**

This refers to the increased amount of Working Capital a business needs during the peak season of the year. A business may even have to borrow funds to meet its working capital needs. Such a working capital specifically meets the demands of business having a seasonal nature.

✓ **Special variable Working Capital:**

Supplementary Working Capital may be required by a business to undertake exceptional operations or unforeseen circumstances. Such is termed special variable Working Capital. For instance, finds needed to finance marketing campaign, unforeseen events like accidental fires, floods, etc

✓ **Gross Working Capital:**

This is the aggregate amount of funds invested in the current assets of the business. In other words, Gross Working Capital refers to the total of the current assets of the business. These includeCash, Accounts Receivable, Inventory, Marketable Securities and Short – term Investments.The Gross Working Capital used alone neither show the complete picture of the short – term financial soundness nor does it shoe case the operational efficiencies of the business. Current assets should be compared with the current liabilities to get a better understanding of a business operational efficiency. And this is how efficiently a business utilizes its short – term assets to meet its day-to-day cash requirements.

- **Net Working Capital:**

Net Working Capital is the amount in which current assets exceed the current liabilities of a business. Thus, the Working Capital equation is defined as the difference between current assets and current liabilities. In this case, current assets refer to the sum of cash, account receivable, raw material and finished goods inventory. Whereas,current liabilities refer to accounts payable.The amount of working capital in a business is the indicator of liquidity, operational efficiency and short – term financial soundness of the business. Businesses having adequate working capital typically have the ability to invest and grow. Conversely, businesses having insufficient working capital have higher odds of going bankrupt. This is because of their inability to pay for their short – term obligations, thus making it difficult for them to grow.

2.5. Temporary Working Capital

This is the amount above the base level which comes as a result of variation in business activity. This is caused by 35 mountainous processes, viz:

(a) The Business cycle increases or decreases the resources need of all firms over a multi - year period. Business cycle has a significant impact on working capital needs of a business. During the boom phase of the business cycle, the businesses typically tend to expand, thus requiring additional working capital.These periods of increased business activity require additional funds to meet the time lag between collection and sales. Also, funds are needed to purchase additional raw material needed to produce additional goods for increase sales.

Besides, the peak period leads to the increased price of raw material and increased wages. Thus, additional funds are needed to produce for such operational expenses. In contrast, there is lesser demand leading to both the decline of production and sale of goods during periods of depression. Thus, less amount of Working Capital is required by the business to carry out its operational activities.

(b) Nature and size of Business:The Working Capital need of a business depends greatly on its nature and size

(c) Production cycle: Production cycle, also known as the operating cycle, is the different between the conversions of raw material into final products. This too impacts on the Working Capital requirements of a business to a greater extent.Business with longer production cycles needs more working capital to fund its operational activities. Therefore, firms adopt various measures to reduce their production cycle in order to minimize their Working Capital requirements.

(d) Seasonal Fluctuations:

There are certain businesses that are seasonal in nature. This means there is a high demand for their goods during a specific period of the year. In such cases, inventory of raw material needs to be purchased during a specific period of time. These become necessary so that goods are produced and are offered for sale when they are needed. Therefore, the seasonality of business impacts the Working Capital requirements of the business.

(e) Operational Efficiency.

Various businesses operate on different operational efficiencies. Thus, the operational efficiency of a business depends upon various factors. Such as:

- Short production cycle that involve less time to convert raw material into finished goods
- Achieving sales quickly
- The shorter debt collection period

In contrast with permanent Working Capital., temporary working capital is a short – term requirement

2.6 WORKING CAPITAL POLICY

This refers to the firm's basic policies regarding the goal of the Corporation which are:

(a) How to add value to the firm (Corporation) and maximize the shareholders' wealth by taking actions that increase the current assets of the company.

(b) How current assets can be adequately and prudentially financed by operating an effective operating cash flow to enhance growth.

2.7. WORKING CAPITAL CYCLE

The working capital cycle of these firms are the sequence of transactions and events involving current assets and current liabilities through which the business makes profits. When suppliers allow the firm to obtain raw materials and do not insist on immediate payment, that is giving the firm time to make payment, the suppliers are then called creditors. They stock obtained by the firm are used in production which when produced become finished good met for sale or used in providing other services. While the stock acquired is held by the firm becomes inventory in the warehouse of the firm met for further production of goods. Any product manufactured from these stock and held for resale also form part of the firm inventory.

The resulting products or services are sold to the customers who may pay cash or pay at a later date. If credit facility is extended to the customers, they become debtors of the firm. The debtors eventually pay in cash. Cash is a general term used to cover money held in notes or coins in the firm's premises or in the firms accounting books. Finally, the cash may be used to pay suppliers who as creditors to the firm have patiently waited to be paid.

Example of Working Capital on a firm sequence transactions and events involving current assets and current liabilities through which the business makes profit can be stated thus:.

Current Assets – Current liabilities = Working Capital.

That is \$220,000 (cash) - \$130,000 (Wages) = \$90,000

2.8. **COMPONENTS OF WORKING CAPITAL OF THE FIRMS.**

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The component of Working Capital consists of current assets and current liabilities. A current asset is an asset that is not intended for use on a continuous basis in the firm's activities.

It is asset that has been acquired with the intention of sale or conversion into cash within the shortest possible time not usually exceeding 12 months. The term includes cash,Inventory and accounts receivable.

Current Liabilities on the other hand refer to what firms owes that are due for payments within 12 months. The main current liabilities are trade creditors or accounts payables that evolved as a result of suppliers who gave credit by allowing the firm time to pay.

III. RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

In the process of carrying out the study, a survey design was used.The population of the study sample is 50 respondents who are directly or indirectly involved in the management of the components of working capital.The elicited information was presented in tablesfor analysis. A total of 50 questionnaires were given out and 45 questionnaires received from respondents were used in the analysis. The accessible population for this study was all three (3) quoted companies in Delta/Edo State with a simple size of two (2) companies. A simple random sampling technique was used to select members of the sample frame. The questionnaire, which was administered on the Management staffs of the selected companies, was the major data collection instrument employed in this study. A combination of both primary and secondary data was used.Primary data, which are the field data, was generated through questionnaires administered and, in some instances, personal interviews were conducted.Secondary data was sourced from relevant textbooks, internet sources and journals. Questionnaires constituted the major instrument for data collection in this research work. A combination of both open and closed ended questions were asked in two sections A and B.Section A is made up of four questions that are demographic in nature, and are aimed at obtaining information concerning the respondents' personal data.While section B comprises of six questions aimed at generating information in relation to the study being carried out. The first main questions demand the use of SA, A, UD, D, SD as appropriate against each of the statements, Where:

SA –Strongly Agreed
A– Agreed
UD - Undecided
D - Disagree
SD - Strongly Disagree

All first three questions in section B are closed ended questions. The remaining three questions are open ended question requiring answers from respondents. In all,eight questions were asked.

In the study, face to face interview was adopted on a small scale to complement the questionnaires administered with the help of research assistant directly to respondents and collection was done directly from respondents a couple of days later.The use of personal interview alongside the questionnaires enabled me get a clear and better understanding in matters and area in which such clarity was required. Although, a lot of time and energy was expended on fixing, and getting interview appointment, the effort was worthwhile. The questionnaires were therefore advantageous in this respect as they could complete them at their convenient time before the collection date.

To aid analysis of data and promote understandability,simple tables were used in the presentation of data. The data collected were processed manually; Simple percentages were used in analyzing the distribution of respondents and questionnaires administered.Here, the number of positive or neutral responses over the fit number of respondents is multiplied by one hundred.

$$\frac{\text{Number of Responses}}{\text{Total Number of Respondents}} \times \frac{100}{1}$$

This method of analysis is favoured because computation/ calculations carried out are easier and it is easy to understand the analysis done using this method. A non – parametric test known as chi – square will be used in testing the hypothesis. It is a statistical device for testing the null hypothesis that there is no different between the observed and expected frequencies. The chi – square test used in this study is known as test of goodness fit. It is interested in ascertaining how well obtained data conform to theoretical distribution.Here, a table is made in which the frequency count in each category is entered as observed frequency.

Categories	P1	P2	pk1	Pk2	3	I	j**Total**
Observed frequency	O_i	O_2	O_3	O_i	O_j		**n**

In this context the expected frequencies are the source for each cell and it is arrived at by using the formulae

$$Ei = \frac{\text{Total Observed Frequencies}}{n}$$

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where n =Number of cells
The computed Chi – square value X^2O is compared with critical value of Chi – square X^2a for (n-1) degrees of freedom (df) at a given level of significance used here which is 0.05.
To get the critical value of X^2a for (n-1) degrees of freedom, you check the chi –square distribution (values of X^2a)

DECISION RULE

The null hypothesis of goodness fit may be rejected at 0.05 level of significance if the computed value of X^2a exceeds for (n-1) degrees of freedom. That is to say, where the calculated mean point is greater than cut-off, it is accepted as effective, but where the calculated mean point is below the cut-off point, it is rejected and ineffective. Thus, test statistics was chosen because it is easy to compute, interpret and apply, although they can be usually long and tedious.

4.**Data Presentation and Analysis of Result**

The sectionApresents the analysis of the data obtained for the study. The first part deals with the preliminary analysis. While the second part focuses on the analysis of the questionnaire items and testing of hypothesis.

QUESTION 1 (SECTION A)

Are you familiar with the components of working capital management and its benefits?

TABLE 1

Options	Respondents	Percentage (%)
Yes	8	17.8
No	37	82.2
Total	45	100

Source: Author’s Computation, 2024.

QUESTION 2 (SECTION A)

Do you have a formal / in – service training on working capital management in your firm.

TABLE 2

Options	Respondents	Percentage (%)
Yes	3	6.7
No	42	93.3
Total	45	100

Source: Author’s Computation, 2024.

QUESTION1 (SECTION B)

There is general lack of awareness of the importance of working capital management in most business organizations.

TABLE 1

Options	Respondents	Percentage (%)
STRONGLY AGREE	8	17.8
AGREED	30	66.7
UNDEUDED	1	2.2
DISAGREE	4	8.9
STRONGLY DISAGREE	2	4.4
Total	45	100

Source: Author’s Computation, 2024.

QUESTION2 (SECTION B)

Efficient Working Capital Management ensures the availability of funds for investments.

TABLE 2

Options	Respondents	Percentage (%)
STRONGLY AGREE	14	31.1
AGREED	31	68.9
UNDEUDED	-	
DISAGREE	-	
STRONGLY DISAGREE	-	
Total	45	100

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Source: Author’s Computation, 2024.

QUESTION 3 (SECTION B)
Working Capital Management is a panacea for the rapid growth of business organizational performance.

TABLE 3

Options	Respondents	Percentage (%)
STRONGLY AGREE	17	37.8
AGREED	27	60.0
UNDEUDED	1	2.2
DISAGREE	-	-
STRONGLY DISAGREE	-	-
Total	45	100

Source: Author’s Computation, 2024.

QUESTION 4 (SECTION B)
There is an optimal level of working capital that should be carried out at any point in time.

TABLE 4

Options	Respondents	Percentage (%)
STRONGLY AGREE	8	17.8
AGREED	37	82.2
UNDEUDED	-	
DISAGREE	-	
STRONGLY DISAGREE	-	
Total	45	100

Source: Author’s Computation, 2024.

QUESTION 5 (SECTION B)
Debtor’s collection period has significant impact on the firm’s financial performance.

TABLE 5

Options	Respondents	Percentage (%)
STRONGLY AGREE	13	28.9
AGREED	32	71.1
UNDEUDED	-	
DISAGREE	-	
STRONGLY DISAGREE	-	
Total	45	100

Source: Author’s Computation, 2024.

QUESTION 6 (SECTION B)
The amount of working capital required to carry on a business should be the minimum consistent with running the organization without interruption.

TABLE 6

Options	Respondents	Percentage (%)
STRONGLY AGREE	5	11.1
AGREED	29	4
UNDEUDED	-	
DISAGREE	8	17.8
STRONGLY DISAGREE	3	6.7
Total	45	100

Source: Administered Questionnaires for Question 6 Section B
Therefore on the basis of this study, the following hypotheses were formulated:

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Hypotheses 1:

Ho: Debtors collection period has no significant impact on the firm's financial performance.
Hi: Debtors collection period has significant impact on firm's financial performance.

The hypothesis is tested with question 5 in table 5 "Debtors collection period has significant impact on the firm's financial performance".
The null hypothesis (Ho) will be:

Accepted if $X^2{}_o <$
Reject if $X^2{}_o > X^2{}_o$

TABLE 5

Options	Respondents	Percentage (%)
STRONGLY AGREE	13	28.9
AGREED	32	71.1
UNDEUDED	-	-
DISAGREE	-	-
STRONGLY DISAGREE	-	-
TOTAL	45	100

Source: Administered Questionnaires
Using the Chi – Square formula

$$X^2 = \frac{\sum(Oi - Ei)^2}{Ei}$$

Where Oi = Observed Frequency
Ei = Expected Frequency
$X^2{}_o$ = Calculate Chi –square value
$X^2{}_o$ = Chi – square value from Chi – square
Distribution table

The calculation will be:

TABLE 5.1

Options	Oi	Ei	Oi - Ei	$(Oi – Ei)^2$	$\frac{(Oi – Ei)^2}{Ei}$
Strongly agree	13	9	4	16	1.8
Agree	32	9	23	529	58.8
Undecided	-	9	- 9	81	9
Disagree	-	9	-9	81	9
Strongly disagree	-	9	- 9	81	9
Total	45				87 .6

Source: Author's Computation, 2024.

$$Ei = \frac{\text{Total Observed frequency}}{n} = \frac{45}{5}$$

= 9
Degree of freedom = n – 1 = 5 – 1 = 4
Level of significance = 0.05
$X^2{}_o$ = 87.6

Thus, the null hypothesis is rejected at the 0.05 level of significance because the computed value of chi – square ($X^2{}_o$) 87.6 is greater than the critical value of chi – square.
($X^2{}_o$) at 9 degree of freedom.
Therefore, debtor's collection period has significant impact on the firm's financial performance.

HYPOTHESIS 2

Ho: Working capital management is not a panacea for rapid growth in business impact on organizational performance.
Hi: Working capital management is a panacea for rapid growth in a business impact on organizational performance.

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The hypothesis is tested with question 3 in table 3. Working capital management is a panacea for rapid growth in a business organizational performance..
The null hypothesis (Ho) will be:

Accepted if $X^2{}_o < X^2{}_o$
Rejected if x20 >($x^2{}_a$)

TABLE 3

Options	Respondents	Percentage (%)
STRONGLY AGREE	17	38.8
AGREED	27	60.0
UNDEUDED	1	2.2
DISAGREE	-	‘
STRONGLY DISAGREE	-	-
TOTAL	45	100

Source: Administered Questionnaires

Using the Chi –square formula

$$X^2o = \frac{\sum(Oi - Ei)^2}{Ei}$$

This will be calculated thus:

TABLE 3.1

Options	Oi	Ei	Oi - Ei	$(Oi – Ei)^2$	$\frac{(Oi – Ei)^2}{Ei}$
Strongly agree	17	9	8	64	7.1
Agree	27	9	18	324	36
Undecided	1	9	- 8	64	7.1
Disagree	-	9	-9	81	9
Strongly disagree	-	9	- 9	81	9
Total	45				68.2

$$Ei = \frac{\text{Total Observed frequency}}{n} = \frac{45}{5} = 9$$

Degree of freedom = n – 1 = 5 – 1 = 4
Level of significance = 0.05
$X^2{}_o$ = 68.2

The null hypothesis is rejected at the 0.05 level of significance because the computed value of chi – square ($X^2{}_o$) 68.2 is greater than the critical value of chi – square ($X^2{}_o$) 9. at 4 degree of freedom.Therefore, working capital management has an impact on organizational performance.
In summary, the study reveals that:

- the working capital policy had not been properly adhered to
- The optimal working capital level had not been ascertained.
- Management pays less attentions to working capital when compared to capital budgeting.
- No contingency plans were made to forestall eventuality.

IV. Conclusions

The study has examined the effective use of working capital on the performance of business organization in Nigeria. The hallmark of a good business management is the ability to prudently utilize working capital management to maintain a solid balance between growth, profitability and liquidity. The Study discusses working capital ratio, the goal of working capital management in terms of how it maximizes operational efficiency, maintain smooth operations and help to improve the firm’s earning capacity and profitability.It also examined howinventory management, management of accounts receivable and accounts payables help in the management of working capital. The study went further to cover the decision–making policy for capital investments, the theory of working Capital Budgeting, Opportunity cost of an investment, the concept of net present value in working capital, cash management and the rational for holding cash beside inventory control and management / credit policy and working–capital financing.

The study finds that businesses or firms do not adhere to working capital policy and most firms do not have a standardized policy for management of working capital in Nigeria. Management pays less attention to working capital. Taxation has no significant effect on working capital management.The most significant factor influencing the choice of working capital techniques is revealed to be the wealth maximization factor while the most effective working capital management technique for evaluating growth and profitability performance is the NPV. The study also brought to the fore, that contingency plans are made in firms to forestall eventualities in Nigeria. Under the foregoing, the study recommends that a formal training be given to staff involved in activities relating to working capital components; optimal level of working capital should be aptly determined; there should be strict adherence and indeed consistent with the method of financing working capital and policy on working capital should be flexible and feasible.

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