



EFFECT OF WORKING CAPITAL MANAGEMENT ON FINANCIAL PERFORMANCE OF QUOTED CONSUMER GOODS COMPANIES IN NIGERIA

Yakubu Ibrahim

Department of Accounting, Veritas University Abuja
ibrahimya@veritas.edu.ng

&

Okonkwo Okechukwu, PhD

Department of Accounting, Veritas University Abuja
&

Otiko, Ugochukwu Nnamdi

Department of Accounting, Veritas University Abuja.
otikou@veritas.edu.ng

Abstract

This study examines how working capital management affects the financial performance of quoted consumer goods companies in Nigeria. Inefficient management of short term assets and liabilities can weaken firm profitability, yet Nigerian evidence on the separate roles of inventory, receivables, and payables management remains limited and inconsistent. The study specifically assesses the effects of inventory management, accounts receivable management, and accounts payable management on financial performance. It adopts an ex post facto research design using panel data drawn from the audited annual reports of ten quoted consumer goods companies listed on the Nigerian Exchange Group between 2016 and 2025. Inventory turnover, average collection period, and average payment period serve as proxies for working capital management, while return on assets measures financial performance. Data are analysed using descriptive statistics and fixed effects panel regression. The results show that inventory management has a positive and statistically significant effect on financial performance. Accounts receivable management has a negative and statistically significant effect, suggesting that longer collection periods reduce profitability. Accounts payable management has a negative but statistically insignificant effect. The study concludes that inventory and receivables management are the more critical drivers of profitability among quoted consumer goods companies in Nigeria. It recommends that firms adopt technology driven inventory control systems, strengthen credit management and debt recovery practices, and pursue a balanced approach to supplier payment that protects liquidity without damaging supplier relationships.

Keywords. *Working Capital Management, Inventory Management, Accounts Receivable Management, Accounts Payable Management, Financial Performance*

Introduction

Working capital management is central to corporate financial management because it shapes a firm's liquidity, operational efficiency, and profitability. Gitman and Zutter (2015) describe it as the management of current assets and current liabilities in a way that ensures adequate liquidity while supporting profitability. Brigham and Houston (2022) similarly frame it as the pursuit of balance between liquidity and profitability through the management of short term resources. Its main components, inventory, accounts receivable, and accounts payable, determine how efficiently a firm



converts resources into cash. Firms that manage these components well tend to reduce costs and improve cash flow, while poor management often leads to liquidity strain and weaker profitability.

Evidence from several economies supports this view. Deloof (2003) found that effective management of inventories, receivables, and payables improves profitability by lowering financing costs and improving cash flow. Sharma and Kumar (2011) reported that firms with shorter cash conversion cycles tend to outperform those with longer cycles. In Africa, Mathuva (2010) found that efficient inventory and receivables management improved profitability among listed Kenyan firms, while Akoto et al. (2013) reported similar results in Ghana. These findings suggest that the importance of working capital management is not limited to developed economies but extends strongly to emerging markets, where firms often operate with constrained access to long term financing.

The Nigerian business environment adds further weight to this argument. Firms have faced persistent inflation, currency depreciation, rising interest rates, and supply chain disruptions in recent years, all of which increase pressure on liquidity. Falope and Ajilore (2009) observed that poor management of inventories and receivables weakened the financial performance of Nigerian firms, while Adegboye and Wilson (2023) found that firms with efficient working capital structures achieved stronger profitability and liquidity. The consumer goods sector is particularly exposed to these pressures (Anthony & Michael, 2026). It plays a major role in employment and industrial development, but it also carries heavy investment in inventory and trade credit, and it continues to contend with rising production costs, foreign exchange constraints, and shifting consumer demand.

Despite its importance, many quoted consumer goods companies in Nigeria continue to struggle with managing inventories, receivables, and payables effectively, and this has implications for their profitability and long-term sustainability. Existing studies on the relationship between working capital management and financial performance have also produced inconsistent results. Okphiabhele et al. (2022) reported a positive relationship between working capital management and profitability among industrial goods firms in Nigeria, while Joshua and Nurudeen (2023) found no significant effect among consumer goods firms. Kiymaz et al. (2024) observed that the effect varies across developed and emerging economies, and Wanzala and Obokoh (2024) found that the relationship differs across firms and operating environments. These mixed findings make it difficult to draw firm conclusions.

A further limitation is that many prior studies, including Okphiabhele et al. (2022), Tran et al. (2023), Joshua and Nurudeen (2023), Kiymaz et al. (2024), and Wanzala and Obokoh (2024), focus on aggregate measures such as the cash conversion cycle rather than examining inventory, receivables, and payables management separately. Others were conducted outside the Nigerian consumer goods sector or relied on data from earlier periods that do not reflect current economic conditions. This creates a need for updated evidence, based on recent data, that isolates the individual effects of each working capital component on the financial performance of quoted consumer goods companies in Nigeria.

Research questions

- i. What effect does inventory management have on the financial performance of quoted consumer goods companies in Nigeria?
- ii. How does accounts receivable management affect the financial performance of quoted consumer goods companies in Nigeria?
- iii. What effect does accounts payable management have on the financial performance of quoted consumer goods companies in Nigeria?



1.3 Objectives of the study

The main objective is to examine the effect of working capital management on the financial performance of quoted consumer goods companies in Nigeria. The specific objectives are to

- i. examine the effect of inventory management on the financial performance of quoted consumer goods companies in Nigeria,
- ii. determine the effect of accounts receivable management on the financial performance of quoted consumer goods companies in Nigeria, and
- iii. assess the effect of accounts payable management on the financial performance of quoted consumer goods companies in Nigeria.

Research hypotheses

H₀₁. Inventory management has no significant effect on the financial performance of quoted consumer goods companies in Nigeria.

H₀₂. Accounts receivable management has no significant effect on the financial performance of quoted consumer goods companies in Nigeria.

H₀₃. Accounts payable management has no significant effect on the financial performance of quoted consumer goods companies in Nigeria.

Literature Review

Conceptual review

Working capital management refers to the coordinated management of inventories, accounts receivable, accounts payable, and cash to support liquidity and operational efficiency. Pratap (2023) describes it as the effective management of these resources to enhance operational efficiency and firm performance, while Mirón Sanguino et al. (2024) frame it as maintaining an appropriate balance between current assets and current liabilities to enable smooth business operations. Chaudhary and Sharma (2024) add that it involves optimising liquidity and operational effectiveness in the course of daily business activity. Taken together, these views suggest that effective working capital management allows a firm to meet its short term obligations while still supporting long term growth. Inventory management is the planning, control, and monitoring of stock to achieve operational efficiency and customer satisfaction. Munyaka and Yadavalli (2022) describe it as a core management function that supports organisational performance, while Tambunan et al. (2023) view it as the coordination of planning, replenishment, and control activities needed to keep inventory flowing smoothly. For this study, inventory management is understood as the strategic planning and control of stock to ensure materials and products are available in the right quantity and at the right time, while keeping inventory related costs to a minimum.

Accounts receivable management concerns the regulation of customer credit and collection practices. Adebola et al. (2023) describe it as an effort to maximise cash inflow while limiting default risk and bad debt losses, while Pratap (2023) emphasises the continuous monitoring of customer debts to free up capital tied down in outstanding accounts. Effective receivables management therefore strengthens cash flow and reduces exposure to bad debt. Accounts payable management involves the administration of supplier obligations and payment schedules. Koroma and Bein (2024) describe it as a mechanism for balancing short term financing needs with the obligation to maintain good supplier relationships, while Mirón Sanguino et al. (2024) frame it as the regulation of payment obligations and supplier credit terms to support liquidity. It is best understood as the strategic management of trade credit and payment timing to protect both liquidity and supplier goodwill.

Financial performance reflects how effectively a firm uses its resources to generate profit and create value. Ross et al. (2022) define it as the outcome of managerial and financial decisions reflected in profitability and shareholder wealth, while Baby et al. (2024) describe it as the extent to which a firm



achieves financial success and sustains growth. Return on assets, the measure adopted in this study, captures how efficiently a firm converts its total assets into profit. Brigham and Houston (2022) describe it as a measure of earning power relative to total assets, and Brealey et al. (2023) view it as an indicator of how effectively investments in assets are converted into profit.

Empirical review

Several studies link inventory management to financial performance. Moses et al. (2023) found that inventory turnover had a positive and significant effect on the return on assets of listed industrial goods firms in Nigeria, and attributed this to improved inventory utilisation and cost efficiency. Akinleye and Adesina (2024) reported similar results among listed manufacturing firms in Nigeria, using a census of 28 firms and panel regression analysis. Outside Nigeria, Hashed and Shaik (2022) and Alnaim and Kouaib (2023) both found that inventory turnover positively and significantly affected profitability among listed Saudi Arabian firms. In contrast, Moedu et al. (2023) found that inventory turnover had a significant negative effect on return on assets among listed industrial goods firms in Nigeria, suggesting that excessive inventory holding can also erode profitability. Together, these studies indicate that inventory management generally supports profitability, though the direction and strength of the effect can depend on sector and the specific measure used, which justifies further investigation among quoted consumer goods companies in Nigeria.

The evidence on accounts receivable management is more consistent. Adebola et al. (2023) found that efficient receivables management positively influenced profitability and firm value among listed non-financial firms in Nigeria through improved cash flow. Nwude et al. (2022) reported that the average collection period had a negative and significant effect on return on assets among listed manufacturing companies, implying that shorter collection periods improve profitability. Dabai et al. (2024), focusing specifically on listed consumer goods firms in Nigeria, found that the average collection period had a significant negative effect on return on equity. Agbetuyi et al. (2024) similarly found a significant negative relationship between the average collection period and profitability among consumer goods firms, while Koroma and Bein (2024) found that efficient receivables management improved profitability by accelerating cash inflows. These studies consistently suggest that prolonged collection periods weaken financial performance by delaying cash inflows and increasing the risk of bad debts.

Findings on accounts payable management are mixed. Olabisi et al. (2022) found that the accounts payable period had a significant effect on the return on assets of listed consumer goods manufacturing firms in Nigeria, indicating that an optimal payment period can improve liquidity and profitability. Agbetuyi et al. (2024) found that the average payment period had a significant negative effect on profitability among consumer goods firms, implying that prolonged delays in settling suppliers can be costly. Korent and Orsag (2022) reported a similar negative and significant effect among listed manufacturing firms in Croatia. However, Adetona-Ibrahim et al. (2025), studying consumer goods companies in Nigeria between 2019 and 2023, found that the accounts payable period had an insignificant effect on return on assets, suggesting that payable management alone may not be sufficient to drive profitability unless integrated with other working capital decisions.

Theoretical review

This study draws on Agency Theory and the Resource Based View. Agency Theory, developed by Jensen and Meckling (1976), explains the relationship between shareholders and managers who are entrusted with running the firm on the owners' behalf. It holds that managers may pursue personal interests that conflict with shareholder wealth maximisation, producing agency costs that reduce efficiency. The theory is relevant here because managerial decisions on inventory, receivables, and payables directly affect profitability and firm value, and recent studies continue to apply it in



explaining how managerial financial decisions shape firm performance (Naciti et al., 2022; Aluchna & Kuszewski, 2023). The Resource Based View, propounded by Barney (1991), argues that firms achieve superior performance through valuable, rare, and difficult to imitate resources and capabilities. This theory underpins the study because the effective management of inventory, receivables, and payables is itself an organisational capability that can lower operating costs, improve liquidity, and strengthen financial performance. Contemporary studies continue to emphasise the role of such internal capabilities in sustaining competitive advantage (Kozlenkova et al., 2021; Ferreira et al., 2023).

Gap in literature

The literature confirms that working capital management matters for financial performance, but three gaps remain. First, many studies rely on aggregate measures such as the cash conversion cycle rather than examining inventory, receivables, and payables management as distinct components. Second, findings remain inconsistent, with some studies reporting positive effects and others reporting negative or insignificant effects, suggesting the relationship varies by industry, country, and prevailing economic conditions. Third, many Nigerian studies either fall outside the consumer goods sector or rely on data that predate the inflationary and foreign exchange pressures of recent years. This study addresses these gaps by examining the separate effects of inventory management, accounts receivable management, and accounts payable management on the financial performance of quoted consumer goods companies in Nigeria, using panel data covering 2016 to 2025.

Methodology

This study adopts an *ex-post facto* research design, since it relies on historical financial data that already exist and cannot be manipulated by the researchers. This design is well suited to examining cause and effect relationships using secondary data and is widely applied in accounting and finance research on firm level financial behaviour.

The population comprises 20 consumer goods companies listed on the Nigerian Exchange Group as of 31 December 2025. Consumer goods companies were chosen because their operations require substantial investment in inventory, receivables, and payables, and because they are required to publish audited annual financial statements, which ensures reliable and comparable data. From this population, ten companies were selected using purposive sampling, based on continuous listing from 2016 to 2025, availability of audited annual reports throughout the period, consistency in financial reporting, and classification within the consumer goods sector. The sample generated a balanced panel of 100 firm year observations. The selected firms are BUA Foods Plc, Nestle Nigeria Plc, Nigerian Breweries Plc, Dangote Sugar Refinery Plc, Guinness Nigeria Plc, Unilever Nigeria Plc, PZ Cussons Nigeria Plc, International Breweries Plc, Cadbury Nigeria Plc, and Nascon Allied Industries Plc.

Financial performance, the dependent variable, is measured by return on assets, calculated as net profit after tax divided by total assets and expressed as a percentage. Inventory management is measured by inventory turnover, calculated as cost of goods sold divided by average inventory. Accounts receivable management is measured by the average collection period, calculated as accounts receivable divided by net credit sales and multiplied by 365 days. Accounts payable management is measured by the average payment period, calculated as accounts payable divided by cost of goods sold and multiplied by 365 days.



The functional relationship is specified as $ROA = f(INV, ACP, APP)$, and the econometric model is expressed as follows.

$$ROA_{it} = \beta_0 + \beta_1 INV_{it} + \beta_2 ACP_{it} + \beta_3 APP_{it} + \varepsilon_{it}$$

Here, ROA is return on assets, INV is inventory management, ACP is accounts receivable management, APP is accounts payable management, β_0 is the constant term, β_1 to β_3 are the parameter estimates, ε is the error term, i denotes the individual company, and t denotes the time period. Data were analysed using Stata version 18. The analysis involved descriptive statistics, correlation analysis, a variance inflation factor test for multicollinearity, the Breusch-Pagan test for heteroscedasticity, the Hausman test for model selection, and fixed effects panel regression.

Results and Discussion

Descriptive statistics

Table 1 presents the descriptive statistics for the study variables.

Variable	Mean	Std. Dev.	Min	Max
Return on Assets (%)	11.24	3.52	3.50	18.20
Inventory Management (INV)	5.32	1.12	2.60	7.20
Accounts Receivable Management (ACP)	36.85	9.78	20.50	62.50
Accounts Payable Management (APP)	47.83	5.92	38.20	60.20

Source. Author's computation (2026).

The sampled firms recorded an average return on assets of 11.24 percent, indicating moderate profitability. Inventory turned over an average of 5.32 times a year, while the average collection and payment periods stood at about 37 and 48 days respectively, pointing to a fairly stable working capital cycle across the sample.

Correlation analysis

Variables	ROA	INV	ACP	APP
ROA	1.000			
INV	0.812***	1.000		
ACP	-0.745***	-0.621**	1.000	
APP	-0.561**	-0.415*	0.382*	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$. Source. Author's computation (2026).

Inventory management is strongly and positively correlated with return on assets ($r = 0.812$), while accounts receivable management ($r = -0.745$) and accounts payable management ($r = -0.561$) are negatively correlated with it. None of the correlations among the independent variables is high enough to signal a serious multicollinearity problem.

Diagnostic tests

The variance inflation factor test confirms the absence of multicollinearity, with values of 1.82 for inventory management, 2.15 for accounts receivable management, and 1.96 for accounts payable management, giving a mean VIF of 1.98. These figures fall well below the conservative threshold of 5, so each explanatory variable contributes distinct information to the model and the resulting coefficients should be stable and reliable.



The Breusch-Pagan test for heteroscedasticity produced a chi-square statistic of 2.31 with a probability value of 0.128. Since this exceeds the 5 percent significance level, the null hypothesis of constant variance cannot be rejected, meaning the residuals are homoscedastic and the standard errors from the regression are reliable for inference.

The Hausman test produced a chi-square statistic of 18.75 with a probability value of 0.0003. Because this is below 0.05, the fixed effects model is preferred over the random effects model and was adopted for the analysis.

Regression results and hypotheses testing

Variable	Coefficient	t-Statistic	p-value
Inventory Management (INV)	1.952	4.74	0.000
Accounts Receivable Management (ACP)	-0.171	-4.50	0.000
Accounts Payable Management (APP)	-0.096	-2.00	0.077
Constant	10.435	2.93	0.004

R-squared = 0.663. F-statistic = 42.28. Prob(F) = 0.000. Observations = 100. Source. Author's computation (2026).

The model explains 66.3 percent of the variation in financial performance, and the significant F-statistic confirms that it fits the data well. Inventory management has a positive and significant effect on return on assets ($\beta = 1.952$, $p < 0.05$), so the first null hypothesis is rejected. Accounts receivable management has a negative and significant effect on return on assets ($\beta = -0.171$, $p < 0.05$), so the second null hypothesis is also rejected. Accounts payable management has a negative but statistically insignificant effect on return on assets ($\beta = -0.096$, $p > 0.05$), so the third null hypothesis is accepted.

Discussion of findings

The positive and significant effect of inventory management on financial performance suggests that efficient inventory control improves profitability through better turnover, lower carrying costs, and more effective use of resources. This is consistent with Akinola et al. (2024), Adetona-Ibrahim et al. (2025), and Ibrahim et al. (2026), who found that effective inventory management improves profitability among Nigerian manufacturing and consumer goods firms. It contrasts, however, with Ojo and Fasina (2024), Joshua and Nurudeen (2023), and Gara and Adamu (2026), who found insignificant or negative relationships between inventory measures and profitability, differences that may reflect variation in sample size, industry, and how inventory efficiency is measured. For Nigerian consumer goods firms, keeping adequate inventory levels appears important for meeting demand and sustaining profitability.

The negative and significant effect of accounts receivable management indicates that longer collection periods reduce profitability by delaying cash inflows, raising the risk of bad debts, and pushing firms toward more costly external financing. This supports Adetona-Ibrahim et al. (2025) and Ibrahim et al. (2026), who found that efficient receivables management improves liquidity and profitability by speeding up cash recovery. It contrasts with Ahmed et al. (2023), who found a positive relationship between the average collection period and firm performance, arguing that generous credit terms can stimulate sales. The difference may reflect variation in credit policy, customer behaviour, and competitive conditions across sectors. Among Nigerian consumer goods firms, however, prolonged collection periods appear to tie down funds that could otherwise support productive activity.



The negative but insignificant effect of accounts payable management suggests that extending supplier payment periods does not, on its own, meaningfully change profitability for the sampled firms. This aligns with Ojo and Fasina (2024) and Joshua and Nurudeen (2023), who found that payable management had little independent effect on profitability unless combined with efficient management of other working capital components. It contrasts with Adetona-Ibrahim et al. (2025) and Ibrahim et al. (2026), who found a significant effect, possibly because firms in their samples could redirect delayed cash toward short term investment before settling supplier obligations. For Nigerian consumer goods firms, prolonged payment periods may carry the risk of straining supplier relationships without a corresponding profitability gain.

Overall, inventory management and accounts receivable management stand out as the more critical drivers of financial performance among quoted consumer goods companies in Nigeria, while accounts payable management plays a comparatively minor role. The results point to the importance of a working capital policy that balances liquidity needs against profitability objectives.

Conclusion and Recommendations

This study examined the effect of working capital management on the financial performance of quoted consumer goods companies in Nigeria between 2016 and 2025. Inventory management has a positive and significant effect on financial performance, showing that firms with efficient inventory control are better positioned to improve profitability through operational efficiency and lower holding costs. Accounts receivable management has a negative and significant effect, indicating that prolonged collection periods constrain liquidity and reduce profitability. Accounts payable management has a negative but statistically insignificant effect, suggesting that extending payment periods to suppliers does not, by itself, translate into stronger profitability.

The study concludes that effective working capital management, particularly in the areas of inventory and receivables, is essential for improving the profitability and long term sustainability of quoted consumer goods companies in Nigeria. On this basis, the following recommendations are proposed. First, quoted consumer goods companies should strengthen inventory control by adopting modern inventory management systems, including enterprise resource planning tools and real time monitoring, to maintain stock levels that meet customer demand while minimising holding and obsolescence costs. This is consistent with the Resource Based View, which holds that efficient management of strategic resources such as inventory strengthens competitive advantage (Barney, 1991; Ferreira et al., 2023).

Second, management should tighten credit policy to shorten the average collection period. This includes strengthening customer credit assessment, setting appropriate credit limits, reviewing receivables regularly, and adopting automated systems for monitoring and debt recovery. These measures should accelerate cash inflows, reduce bad debt exposure, and improve financial performance, consistent with the view that efficient receivables management improves cash flow and profitability (Adebola et al., 2023; Koroma & Bein, 2024).

Third, firms should manage accounts payable prudently, balancing liquidity needs with the preservation of supplier relationships. Although accounts payable management did not show a statistically significant effect on financial performance, firms should avoid excessive delays in settling suppliers as an informal source of financing, and should instead negotiate favourable trade credit terms and honour agreed payment schedules to protect supplier confidence and secure uninterrupted access to production inputs (Mirón Sanguino et al., 2024; Koroma & Bein, 2024).



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