EFFECT OF CASH CONVERSION CYCLE ON FINANCIAL PERFORMANCE OF LISTED CONSUMER GOODS FIRMS IN NIGERIA.

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Abstract
This study examines the effect of cash conversion cycle on financial performance of listed consumer goods firms in Nigeria. The study concentrated on the period from 2018 to 2023. Panel data was used to analyse the data sourced from the individual financial reports of the listed consumer goods firms. The sample adopted eighteen (18) listed consumer goods firms out of the twenty (20) listed consumer goods firms in Nigeria due to unavailability of complete data. The study employed panel regression model to estimate the key relationship between cash conversion cycle and financial performance of listed consumer goods firms. The finding shows that account payable had negative significant effect on ROA of listed consumer goods firms in Nigeria. The finding also shows that inventory turnover had a positive significant effect on ROA of listed consumer goods firms in Nigeria, while account receivable had no positive significant effect on ROA of listed consumer goods firms in Nigeria. The study recommended that consumer goods firms should foster strong relationships with their suppliers to prevent disruptions in the supply chain. Implementing an effective accounts payable policy can help improve short-term liquidity, ultimately boosting overall firm performance. Managers should develop strategies and offer incentives such as discounts and promos to encourage faster repayments from customers. These measures can motivate debtors to settle their outstanding balances promptly. Consumer goods firms should manage inventory levels carefully to strike a balance between supply and demand. Avoiding both overstocking and stock outs can contribute to improved operational efficiency and enhanced financial performance.
Keywords: Cash Conversion Cycle, Account Payable, Account Receivable, Inventory Turnover, Financial Performance, Listed Consumer Goods Firms, Nigeria.

INTRODUCTION

The financial performance and success of a firm relies ultimately on its propensity to generate cash receipts that are more than its disbursements. Organizations frequently consider the adequate numbers of days it will take them to convert sales to cash. However, managers would desire to have a relatively lower cash conversion cycle because that would indicate that the firm is liquid and it has the ability to meet its maturing obligation.

Cash conversion cycle is one of the key aspects of corporate financial management, primarily focusing on decisions regarding the amount and structure of current assets and current liabilities. Cash conversion cycle is the most dynamic and comprehensive measure of working capital (Lalah, 2018). it begins as cash payment for raw materials for inventory and other resources and ends in cash flows sales. Cash conversion cycle is a metre that is made up three elements, account receivables, account payable and inventory turnover. The nexus of cash conversion cycle and the need for effective performance can be understood by looking at the time and energy financial managers devote to sourcing, controlling and applying the various components of receivables, payables and inventory. (Danyadado & Jinjiri, 2022). However, management varies from firm to firm and from industry to industry due to the differences in their operations, regulations and capital requirements.

Account receivable is the metric that informs stakeholders how much money customers owe a business for goods and services that have already produced. In the firm financial records, not all goods sold have been paid for. Some customers are given certain period before they pay because the firm makes more sales as the customer does not settle its bill immediately, so they can more goods than they would if paying cash out rightly. Account receivable is regarded as an asset in the balance sheet even though most firms do not collect 100% of the money in its account receivable. In order to take this risk into consideration, financial reporting is done on the premise that not all account receivable will be paid by customers. when this occurs, it is usually a charge against profit (Obalemo, et al. 2020).

On the other hand, firms also have certain short-term outstanding amounts owed to creditors known as account payable. Delaying payment of accounts payables to suppliers allow firms to access the quality of bought products and can be inexpensive and flexible source of financing (Murtala & Sani, 2016). However, delaying of account payables can be expensive if a firm is offered a discount for early payment which reduces the cash conversion cycle but has an implicit cost where discount is offered for early statement of invoices. Therefore, a decision to take advantage of trade credit or not to stretch account payables should be based on cost benefit analysis. The firm is expected to balance the inventory against the cost of forgoing possible late payment penalties, higher investment in inventories by the firm will diminish the optimal level and may bring about decrease in performance (Madugba & Ogbonnaya, 2016). Inventory holding practices such as improvement in inventory turnover, inventory ageing period and less can increase financial performance significantly. The source of granting trade credit and keeping inventories is that money is saved in working capital. Reducing stock produces large financial benefits by continuously increasing cash flow, decreasing operating cost level, lowering the asset base and decreasing capital spending (Ratna & Meipita, 2017).

Every business entity regardless of size requires a sound cash conversion cycle to be afloat. The influence of cash conversion cycle on profitability is enormous because it results in effective financial management (Adebisi & Gbegi, 2013). Higher investment and longer cash conversion cycle is associated with a decrease in firm's profitability because of the decline in the efficient use of cash conversion cycle. However, holding too much cash in your business has a number of possible implications, not only are cash returns poor and inefficient, holding significant surplus cash funds can impact on shareholders being unable to benefit from a range of important tax reliefs. Also, companies not holding high levels of cash may find that business owners unable to meet daily obligation.

The issue facing consumer firms in Nigeria is the high exchange rates with the fluctuations in the value Naira which has significantly affected production costs, as the financial performance of these firms have heavily inclined towards asset as most firms have been folding up in Nigeria based on the data from NGX (2023), like Bendel Limited; Danico West Africa Limited; Port Harcourt Flour Mills Limited; Scoa Foods Limited; Standard Biscuit & Agro Products, Jos; UTC Foods Plc; Vitamalt Plc; Ranona Limited; and Deli Foods Limited. Thus, the study intends to examine the effect of cash conversion cycle on financial performance of listed consumer goods firms in Nigeria. However, in line with the main objective of the study, the following hypotheses were tested:

H_{o1}: Account payable ratio has no significant effect on the financial performance of listed consumer goods firms in Nigeria.

H_{o2}: Account receivable ratio has no significant effect on the financial performance of listed consumer goods firms in Nigeria.

H_{03}: Inventory turnover has no significant effect on the financial performance of listed consumer goods firms in Nigeria.

LITERATURE REVIEW

Cash Conversion Cycle

The cash conversion cycle (CCC) represents the duration required to transform investments in inventory and accounts receivable into cash generated from sales. It includes three key elements: days sales outstanding (reflecting accounts receivable), days inventory outstanding (indicating inventory turnover), and days payable outstanding (relating to accounts payable) (Deloof, 2003). The CCC can also be described as the timeframe spanning from the purchase of inventory for production to the eventual sale of finished goods. Additionally, it involves the effective management of a company's assets and liabilities to ensure the availability of sufficient funds for daily operational needs (Gupta & Shruti, 2017). Throughout this cycle, cash transitions through various stages from inventory to receivables, and back to cash. Sugathadasa (2018) developed this concept to better track the movement of cash and its impact on a company's liquidity.

According to Gimba et al. (2021), cash conversion cycle (CCC) refers to the length of time in days between firm's payment for payables and collections for receivables. Also, Rehn (2012) stated that cash conversion cycle refers to the length of time in days between a firm's payment for payables and collections for receivables. cash conversion cycle denotes the cash flow within a firm, which can be used as a tool to determine the amount of cash required for any level of sales. Gitman (2009) presented that the cash conversion cycle is the period of time which elapses between the point at which cash begins to be spent on the production of a product and the collection of cash from sale of finished goods.

Chuke et al. (2018) asserted that the cash conversion cycle (CCC) is negatively related to a company's value. A shorter CCC indicates that the business is efficiently collecting receivables and strategically delaying payments to creditors, thereby enhancing the net present value (NPV) of cash flows and contributing to a higher overall firm value. Accordingly, this study will utilize the definition provided by Besley and Brigham (2005), which describes the cash conversion cycle as the period between the outlay for purchasing raw materials used in production and the eventual collection of receivables from the sale of the finished goods.

Accounts Payable

Vincent (2014) described accounts payable as the average number of days a company takes to settle its debts with suppliers or creditors. Typically, firms aim to extend the payment period for credit purchases, while suppliers often encourage early payments by offering cash discounts to their customers. The creditor payment period is functionally calculated by dividing the average accounts payable by the cost of goods sold and then multiplying by 365 days. Similarly, Chuke et al. (2018) noted that accounts payable reflects the average duration firms take to pay their suppliers, measured as the ratio of accounts payable to purchases. A higher value indicates a longer payment period, which can help firms manage their budgets more effectively and serve as a flexible and cost-efficient financing option. In this study, accounts payable is defined as the short-term obligations a company owes to suppliers for goods or services that have been received but not yet paid for.

Accounts Receivable

Gimba et al. (2021) described accounts receivable as the total amount owed to a firm at a specific point in time, representing the payments the firm expects to receive from customers for goods or services already provided. It is therefore crucial for financial managers to establish effective credit policies to minimize the risk of customer defaults. Chuke et al. (2018) added that accounts receivable is measured as the ratio of accounts receivable to sales, which indicates the average number of days it takes a firm to collect payments from its customers. A higher ratio suggests a greater investment in receivables. Although firms generally prefer cash sales, market competition often necessitates offering credit to customers. In the context of this study, accounts receivable refers to the credit a firm extends to customers for delivered goods or services, reflecting its ability to generate revenue while maintaining flexible payment options.

Inventory Turnover

Inventory turnover reflects how efficiently a company transforms its inventory into sales. A high turnover rate suggests effective inventory management, which minimizes holding costs and frees up cash for other purposes, such as tax planning. Inventories are a key component of a firm's current assets, holding resale value that contributes to profit after covering associated costs (Major et al., 2022). Gimba et al. (2021) defined inventory as a list of items including raw materials, work-in-progress, or finished goods that are either waiting to be used in production or sold. The inventory period is calculated as (inventory/cost of goods sold) × 360, indicating the average number of days inventory is held. Longer holding periods reflect greater investment in stock, which can support a stable level of operations. Maintaining substantial inventory and offering flexible trade credit can boost sales and reduce the risk of stock outs.

Financial Performance

Financial performance is the determination of certain sizes that can measure the success of a company in generating profits (Iwan, & Azhar, 2016). The company's performance demonstrated by its financial statements as a display state of the company during a certain period called the company's financial performance and it can be said that the financial performance is total shareholder returns. Performance measurement is the process of recording and measuring the achievement of the implementation of the activities under the direction of achieving the mission accomplishment by the results displayed in the form of corporate profitability, the development of products, services or processes (Iwan, & Azhar, 2016). Return on assets (ROA) focuses the company's ability to obtain earnings in the company's operations, while return on equity (ROE) only measures the return earned on an investment in the company owner of the business. ROA was used to measure the effectiveness of the company in generating profits by exploiting its assets. The greater the ROA shows that the better financial performance, due to the greater rate of return. If the ROA increased, meaning the company's profitability increased, so that the eventual impact is an increase in profitability enjoyed by shareholders (Jaworski &Czerwonka, 2022). However, this study will define financial performance as the outcome of the firms' operation which measures the overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Empirical Review

Panigrahi (2024) investigated how cash conversion cycle strategies impact the financial performance of companies within the Indian cement industry. The study used variables such as accounts receivable, inventory, accounts payable, and cash holdings as proxies. A sample of 31 cement firms listed on the Bombay Stock Exchange was analyzed over an 11-year period (2010–2020). Using Pearson's correlation and a random effects regression model, the findings revealed a negative relationship between return on assets (ROA) and both inventory turnover period (ITP) and accounts payable period (APP). However, accounts receivable period (ARP) and the overall cash conversion cycle (CCC) did not have a significant effect on firm performance. Additionally, the study found that firm size and leverage negatively influence ROA, while firm age showed no significant impact on financial performance.

Lukić (2023) investigated the impact of net working capital on the profitability of trade in Serbia. In the period 2013 - 2021, in the trade of Serbia, the maximum amount of net working capital was achieved in 2021, the maximum percentage of net working capital from assets was achieved in 2021, the maximum percentage of net working capital from sales was achieved in 2021, and the maximum profitability was achieved in 2021. In the specific case, there is a strong correlation between profitability and net working capital of trade in Serbia. The coefficient of determination is high (Adjusted R Square .941; Sig. F Change .000). The influence of net working capital on the profitability of trade in Serbia is very significant (Sig. .000). This means, in other words, that more efficient management of net working capital can have a significant impact on the profitability of trade in Serbia. Observed dynamically, the amount of net working capital of trade in Serbia has increased recently. This had a positive impact on its liquidity, solvency, efficiency and profitability. Recently, the productivity of trade in Serbia has also increased. The factors that influenced it were: favourable economic climate, foreign retail chains, application of new business models, new concepts of management of costs, income, profit, customers, product categories, application of the concept of sustainable development and digitization of the entire business.

Gimba et al. (2021) studied the effect of cash conversion cycle on firm value of listed agricultural firms in Nigeria. Proxies such as payable payment period, receivable collection period and inventory turnover. While firm value has as proxy by Tobin's Q. The study concentrated on the period from 2010 to 2019. Secondary data was used in other to collect the secondary source of data from the individual financial reports of the listed agricultural sectors. The sample adopted four (4) listed agricultural firms out the five (5) in Nigeria due to the unavailability of data. The study employed regression model to estimate the relationship between cash conversion cycle and firm value. The result showed that payable period has a significant effect on the firm value, while receivable and inventory period had no significant effect on the firm value.

Jaworski and Czerwonka (2022) the relationships between measures of working capital management of cash conversion cycle (CCC), working capital value (WC) and the financial liquidity (CR) and profitability of companies listed on the Warsaw Stock Exchange. The research material consisted of data of 326 companies from 1998–2016. e analysis revealed significant non-linear relationship between WC, CR and profitability. When WC and CR values grow, profitability increases, but at a slower pace. However, there is a linear negative relationship between CCC and profitability. e results are influenced by the industry and the GDP growth. is indicates that pro t-driven entrepreneurs try to delay payments to suppliers. The study contributes to the verification of theories linking profitability with working capital management with emphasis on the influence of the industry. The results have practical implications: companies with growing profitability should not lose sight of the shortening CCC when paying of short-term loans; in some industries decreasing profitability while CR values grow may mean problems with the efficient use of current assets.

Ramachandran and Janakiraman (2020) analyzed the relationship between cash conversion cycle efficiency and earnings before interest & taxes of the Paper Industry in India during 1997–1998 to 2015–20019. To measure the working capital management three index values viz., Performance Index, Utilization Index, and Efficiency Index are computed, and are associated with explanatory variables, viz., Cash Conversion Cycle, Accounts Payable Days, Accounts Receivables Days, Inventory Days. Further, Fixed Financial Assets Ratio, Financial Debt Ratio and Size (Natural log of Sales) are considered as control variables in the analysis, and are associated with the ebit. The study reveals that the Paper Industry has managed the working capital management satisfactorily. The Accounts Payable days has a significant (–)ve relationship with EBIT, which indicates that by deploying payment to suppliers they improve the EBIT. Thus, the paper was conducted in India and did not performs remarkably less period of 4 years.
Iqbal et al (2020) assessed the effect of cash conversion cycle on profitability of the firm. Three components are used to measure cash conversion cycle (CCC); average receivable period (ARP), average inventory period (AIP) and average payable period (APP). The dependent variable is profitability being measured by return on asset (ROA). The pooled data was collected from a sample of 10 firms of two manufacturing sectors of Oil & Gas and Engineering, listed on the Pakistan stock exchange for the period 2010-2018. Regression and correlation techniques were used for analysis and the study found that average receivable period and average inventory period have an adverse significant effect on profitability of the firm except average payable period. In the end, there exists a highly negative significant association among CCC and firm's profitability as ROA. The results showed that lesser the no. of days of CCC, the firm has greater profitability. This paper contributes to the literature, which shows the effect amongst CCC and ROA.

Obalemo, et al. (2020) examined the effect of the cash conversion cycle (CCC) period on the profitability of selected food and beverage companies in Nigeria. The study used five years period from 2014 to 2018. The study adopted the ex-post facto research design. The population is 43 food and beverage companies listed on the Nigerian stock exchange during the period of study. The study uses judgmental sampling techniques to select the sample based on the following criteria and the sample size is ten (10) food and beverage firms in Nigeria. The study used panel regression and analyzed the data using an e-view statistical package of 9.00. The findings indicate that the Cash Conversion Cycle (CCC) has a significant negative relationship with profitability (measured by ROA).

Sugathadasa (2018) examined the relationship between cash conversion cycle and profitability of manufacturing sector organizations listed in Colombo Stock Exchange. As a proxy of independent variables inventory conversion period, debtor conversion period and creditor conversion period combined to derive the cash conversion cycle (CCC) while profitability which deemed to be the independent variables measured through return on assets (ROA) and return on equity (ROE). The study gathered data for 5 years period starting from 2013 to 2017 for 10 listed companies which are operating in manufacturing electrical appliances by using stratified sampling method. Regression Analysis was conducted to test the hypothesis under two linear multiple regression models. Findings of this study highlighted that positive correlation between inventory conversion period and receivable conversion

period while negative correlation between payable conversion periods on ROA while negative correlation between all the components of cash conversion cycle and ROE as the measures of profitability. Moreover, at regression results, inventory conversion period is having significant positive relationship while receivable conversion period is having significant negative relationship and payable conversion period considered to be having a negative but insignificant relationship on firm's profitability at listed manufacturing sector in Sri Lanka.

Theoretical Frameworks

The Cash Conversion Cycle theory was developed by Verlyn R and Eugene L in the 1980s and is a working capital management theory that enables firms to optimize their financial management operations (Savino, 2020). The CCC theory is a theoretical and financial approach that explains the duration taken by an organization to convert its current assets such as accounts receivable into liquid cash. As such, the theory is concerned with the annual days and frequency taken by an institution to turn its liquid assets and cash equivalents into liquid cash necessary in meeting operational costs and other obligations.

The CCC theory was significant in this study. It helped in understanding the efficiency of chartered public universities in collecting their accounts receivable such as student fees, within the shortest time possible to enable the universities to meet their operational costs without any penalties. The theory further measures how much time it takes an institution to collect its accounts receivable and pay up its obligations without incurring any penalties, such as in the form of delayed vendor payments. Public universities with shorter CCC periods exhibited through high cash ratios were considered efficient and experienced optimal financial performance. In contrast, public universities with more extended CCC periods were deemed inefficient and characterized by being financially unstable (Oseifuah &Gyekye, 2017).

In this study, cash conversion cycle theory was adopted in order to help in elaborating the cash conversion cycle and its role in organizational performance. The cash conversion cycle represents the interaction between the components of working capital and the flow of cash within a company.

METHODOLOGY

The research design for this study was expo-facto research design. Expo-facto design involves describing the relationship between the past factors on the present trend or occurrence. The population of the study covers twenty (20) listed consumer goods firms in the Nigerian Exchange Limited as at December 2024 which are Cadbury Nigeria Plc, Champion Brew. Plc, Dangote Sugar Refinery, Dunlop, Flourmill, Goldbrew, Guinness, Honyflour, International Breweries Plc, Mcnichols, Multitrex, Nig. Flour Mills Plc, Nascon, Nestle, Nigerian Brew. Plc, Enamelwa, PZ Cussons Nigeria Plc, Unilever, Uniondicon, Vitafoam. With filtering sampling technique, eighteen (18) consumer goods firms were used as sample for the study while Multitrex Plc, and Uniondicon Plc firms were excluded due to unavailability of data for the purpose of this study.

The panel data was extracted from the published annual reports of listed consumer goods firms in Nigeria, from 2018 - 2023. The research data related to account receivables, account payables and inventory turnover was used as proxies for cash conversion cycle of listed consumer goods firms in Nigeria, while ROA was used as proxy for financial performance in this study. The panel data was analysed using E-views version 12. Descriptive statistics, correlation matrix, normality test and regression analysis were carried out and post estimation analysis such as Heteroskedasticity test, serial correlation and Hausman test was also carried out. The specific model given below for the Hausman test describes a convenient version for regression applications that involves testing whether certain transformations of the original regressors have zero coefficients.$H_n \equiv n\,(\theta_{1n} - \theta_{2n})\,S'\,[S\,V_n\,S]^{-}\,S'\,(\theta_{1n} - \theta_{2n})$.

The Model Specification:

The model adopted for this study is given as thus:

$ROA_{it} = ao + \alpha_1 APR_{it} + \alpha_2 ARR_{it} + \alpha_3 ITR_{it} + e_{it}$……..(1)

Where;
ROA_{it} = Return on Assets(dependent variable)
APR_{it} = Account Payable Ratio
ARR_{it} = Account receivable Ratio
ITR_{it} = Inventory Turnover Ratio
a0 = Constant,
e_{it} = Error term
a1,a2, a3 = the slope or the coefficient of the independent variables.

Decision Rule
The decision rule to test the hypothesis of the study is as follows: If the p-value of the t-coefficient is less than 5% (0.05), the null hypothesis is rejected, otherwise accept.

Table 1: Variables Measurement

S/N	Variable	Nature	Measurement	Studies
1.	Return on Asset	Dependent variable	Ratio of net profit after taxes to total assets	Panigrahi (2024)
2.	Account Receivable	Independent variable	Average sales per day is computed by dividing the total sales on No. of working days	Lukić (2023)
3	Account Payable	Independent variable	Average cost of goods sold per day is computed by dividing the cost of goods sold	Major et al., (2022)
4.	Inventory turnover	Independent variable	Ratio of number of days the inventory is used divided by Cost of goods sold (365).	Gimba, et al. (2021).

Source: Authors Compilation (2024)

RESULTS AND DISCUSSIONS

Tables 2: Descriptive Statistics

	APR	ARR	ITR	ROA
Mean	1.854180	5.368357	22.85860	19.93139
Median	1.475950	4.445300	20.28710	17.47210
Maximum	6.558100	24.04070	89.54490	78.66720
Minimum	-10.20960	-57.29890	-12.76812	-12.33781
Std. Dev.	0.268351	3.625467	10.26028	13.97552
Skewness	-2.103827	-3.541579	-2.636097	-2.330604
Kurtosis	13.88467	22.87663	20.34290	19.12659
Jarque-Bera	544.7220	1781.007	1314.289	1127.175
Probability	0.000000	0.000000	0.000000	0.000000
Sum	178.0013	515.3623	2194.426	1913.413
Sum Sq. Dev.	488.8145	8801.713	86990.02	54608.41
Observations	96	96	96	96

Source: E-Views 13, 2024

The descriptive statistics of the study variables show that the average values for ROA, accounts payable, accounts receivable, and inventory turnover ratio are 19.93, 1.854, 5.36, and 22.85, respectively. The standard deviations, which reflect the extent to which the data vary from their respective means, are 13.97 for ROA, 0.26 for accounts payable, 3.62 for accounts receivable, and 10.26 for the inventory turnover ratio. Additionally, the Jarque-Bera test results confirm that the data follow a normal distribution, making the variables appropriate for further statistical analysis and modeling in the study.

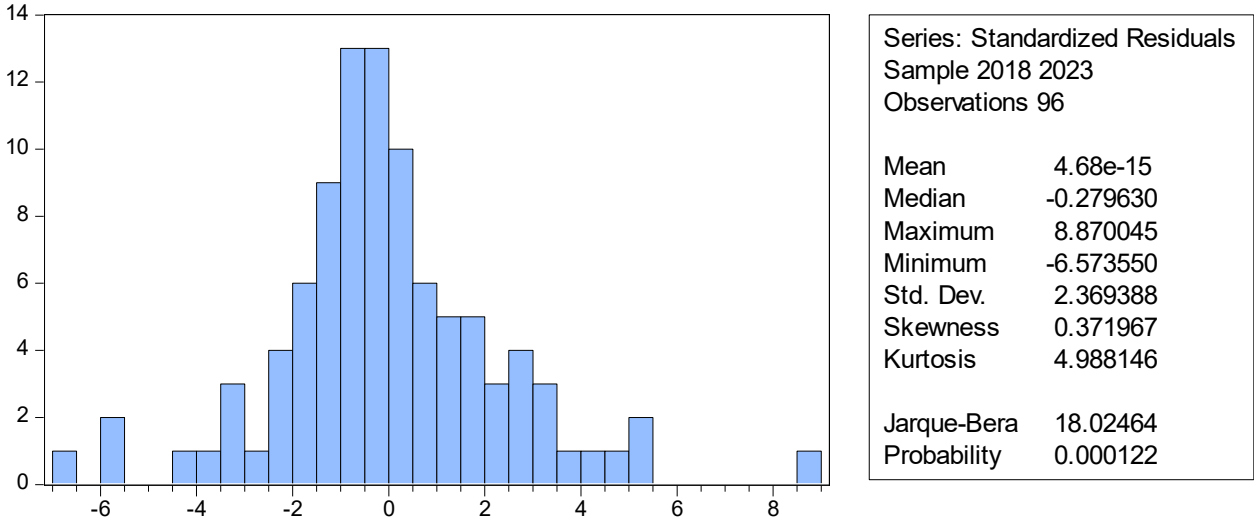
Table 3: Correlation Matrix

	ARP	ARR	ITR	ROA
APR	1	0.627963	0.512284	0.40007
ARR	0.62796	1	0.577062	0.57022
ITR	0.51228	0.577062	1	0.48919
ROA	0.40007	0.5702275	0.48919	1

Source: E-Views 13, 2024

Table 3 displays the correlation analysis between the cash conversion cycle components and the financial performance of listed consumer goods companies in Nigeria. The findings reveal that return on assets (ROA) has a moderate positive correlation with the accounts payable ratio (APR), with a coefficient of 0.40. Additionally, ROA shows a positive relationship with the accounts receivable ratio (ARR), reflected by a correlation value of 0.57. Likewise, there is a positive correlation between ROA and the inventory turnover ratio (ITR), with a value of 0.48. These results suggest varying strengths of positive associations between ROA and the different elements of the cash conversion cycle.

Table 4: Normality Test



Source: E-Views 13, 2024

The normality test presented in Table 4 indicates that the data does not follow a normal distribution. This is evidenced by the Jarque-Bera statistic of 18.02464 and a corresponding p-value of 0.000122, suggesting significant skewness and a departure from normality. Despite this, the data meets the necessary preconditions for applying a panel data model, allowing the study to move forward with the development of the appropriate regression models.

Table 4: Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.770727	3	0.8565

Source: E-Views 13, 2024

The results of the Hausman test presented in Table 4 indicate that the fixed effects regression model is the most appropriate for analyzing the study's data. With a p-value of 0.85, the null hypothesis favouring the random effects model is rejected. Consequently, the fixed effects estimator was adopted for the regression analysis to ensure robust and reliable results.

Table 5: Panel Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.172543	0.354236	6.133038	0.0000
APP	-0.858984	0.389289	-2.206545	0.0303
APR	0.015297	0.036071	0.424090	0.6727
ITR	0.842984	0.028507	29.57062	0.0000
	Effects Specification			
Cross-section fixed				
R-squared	0.892504		Mean dependent var	19.93139
Adjusted R-squared	0.790752		S.D. dependent var	23.97552
S.E. of regression	2.305667		Akaike info criterion	4.683907
Sum squared resid	409.3395		Schwarz criterion	5.191434
Log likelihood	-205.8275		Hannan-Quinn criter.	4.889058
F-statistic	66.40415		Durbin-Watson stat	2.220516
Prob(F-statistic)	0.000000			

Source: E-Views 13, 2024

The regression analysis in table 5 above shows that accounts payable (APP) has a negative significant effect on return on assets (ROA), as indicated by a p-value of 0.03, which is below the 0.05 significance level. This suggests that a 1% increase in accounts payable leads to a 0.858984 decrease in ROA. On the other hand, the inventory turnover ratio has a positive significant positive effect on ROA, with a p-value of 0.000, indicating that a 1% increase in inventory turnover results in a 0.842984 rise in ROA. In contrast, accounts receivable (ARR) does not significantly affect ROA, as its p-value of 0.6727 exceeds the 0.05 threshold.

The model's coefficient of determination (R^2) is 0.89, indicating that 89% of the variation in ROA is explained by the independent variables. Additionally, the F-statistic's p-value of 0.0000 confirms the overall significance of the model, validating its suitability for analyzing the relationship between the cash conversion cycle components and financial performance.

Test of Hypothesis

The regression results provide evidence to support and reject certain hypotheses based on the significance of the variables: Hypothesis 1 (H_1): Accounts payable has no significant effect on ROA of listed consumer goods firms in Nigeria. The analysis confirms a negative and significant relationship between accounts payable and ROA, with a p-value of 0.03 (< 0.05). Therefore, H_1 is rejected, indicating that increases in accounts payable are associated with a decline in ROA.

Hypothesis 2 (H_2): Inventory turnover has no significant effect on ROA of listed consumer goods firms in Nigeria. The results show a positive and significant relationship between inventory turnover and ROA, with a p-value of 0.000 (< 0.05). Hence, H_2 is rejected, implying that higher inventory turnover enhances financial performance.

Hypothesis 3 (H_3): Accounts receivable has no significant effect on ROA of listed consumer goods firms in Nigeria. With a p-value of 0.6727 (> 0.05), accounts receivable does not have a significant impact on ROA. Thus, H_3 is accepted. These findings highlight that while accounts payable and inventory turnover significantly influence financial performance, accounts receivable does not exert a statistically meaningful effect in this model.

Discussion of Findings

The findings of this study align with those of Lukić (2023) and Iqbal et al. (2020), confirming a significant relationship between accounts payable and financial performance. This suggests that firms strategically utilize accounts payable as a financing tool, delaying payments to suppliers to fund operations or investments that can boost earnings. It underscores the importance of effectively managing supplier relationships and negotiating favourable payment terms to maintain profitability.

Similarly, the results support the conclusions of Jaworski and Czerwonka (2022), which found that the relationship between accounts receivable and ROA is not significant. This implies that since accounts receivable represents pending payments from customers, its impact on financial performance may be limited, especially if there is a risk of delayed payments or potential bad debts.

Lastly, the study is consistent with Panigrahi (2024), showing a significant relationship between inventory turnover and ROA. This indicates that efficient inventory management, reflected in faster turnover, positively affects financial performance, as quicker inventory movement can lead to increased profitability.

CONCLUSION AND RECOMMENDATIONS

The paper evaluates the effect of cash conversion cycle on financial performance of listed consumer goods firms in Nigeria. Thus, the study concludes that the cash conversion cycle significantly influences the financial performance of listed consumer goods companies in Nigeria. This highlights the critical role of efficient working capital management, particularly in managing accounts payable, inventory, and receivables in enhancing profitability and overall firm performance.

Drawing from the conclusion, the recommendations are proffered as follows:

i. Consumer goods firms should foster strong relationships with their suppliers to prevent disruptions in the supply chain. Implementing an effective accounts payable policy can help improve short-term liquidity, ultimately boosting overall firm performance.
ii. Managers should develop strategies and offer incentives such as discounts and promos to encourage faster repayments from customers. These measures can motivate debtors to settle their outstanding balances promptly.
iii. Consumer goods firms should manage inventory levels carefully to strike a balance between supply and demand. Avoiding both overstocking and stock outs can contribute to improved operational efficiency and enhanced financial performance.

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