

## **CURRENT ASSET INVESTMENT AND FINANCIAL PERFORMANCE FOR SUSTAINABLE DEVELOPMENT OF INDUSTRIAL GOODS**

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### **ABSTRACT**

*The paper investigated the impact of current asset investment and financial performance for sustainable development of industrial goods. This study established empirical evidence about the relationship between current assets investment and financial performance of listed industrial goods firms in Nigeria. The study concluded that Trade receivable has negative relationship and does not significantly influence return on assets of listed industrial goods manufacturing firms for the period 2011 to 2020 in Nigeria. Cash and cash equivalent has positive relationship and does not significantly influence earnings per share of listed industrial goods manufacturing firms for the period 2011 to 2020 in Nigeria. Cash and cash equivalent has negative relationship and significantly influence return on assets of listed industrial goods manufacturing firms for the period 2011 to 2020 in Nigeria.*

### **INTRODUCTION**

There are several factors that affect financial performance of industrial goods manufacturing firms, one of which is current asset investment. One of the major challenges industrial goods manufacturing firms face is the issue of access to finance. Industrial goods manufacturing firms, especially in developing countries like Nigeria, suffer from lack of access to appropriate (term and cost) funds from the bank, government and capital markets. This is due to the perception of higher risks resulting in high mortality rate of the business, information asymmetry, poorly prepared project proposals, inadequate collateral, absence of, or unverifiable history of past credit(s) obtained and lack of adequate historical records of the company's transaction. Therefore many industrial firms which are profitable are forced to cease their operations due to the inability to meet short term debts obligations. Not that they do not have funds to operate, but the problem is how they manage their current assets.

This study chose to investigate the relationship between current assets investment and financial performance of industrial goods manufacturing firms in Nigeria. Efficient investment in current assets is a crucial factor in enhancing the financial performance of industrial goods manufacturing firms which in turn can reposition the sector to contribute significantly to the growth of Nigerian economy. The success of operations of a firm is determined to a large extent by method of administration of its various forms of assets. In the quest to maximize financial performance, many organizations fail to scrutinize their investment in current assets. This is unfortunate because improving the way an organization controls and manages current assets may have the greatest potential for improving the organization's value (Osirim & Moses, 2019; Agbogun & Taiwo, 2020).

Despite the importance of current assets investment to the financial performance of industrial goods manufacturing firms, the actual relationship between current asset investment and financial performance in Nigeria has been a major problem among researchers which are yet to be resolved. There is divergence in the results of the previous studies which suggests that there is still no conclusive empirical evidence in the literature about how current asset investment influence financial performance of industrial goods manufacturing firms in Nigeria (Azadi, 2013; Warrad &

Omari, 2015). Agbogun and Taiwo (2020) analyzed the impact of current assets investment and management on corporate financial returns of listed commercial banks in Nigeria. The results of the study indicate that there exist a significant positive relationship between loans and advances granted to customers and return on assets while financial assets held for trading and cash, and cash balances have insignificant positive relationships with return on asset. Mawih (2014) findings reveal that current assets had no impact on return on assets and return on equity. Smith and Begemann (2015) compared the relationship between traditional current asset ratios and alternative current asset ratios to the return on investment on 135 industrial firms listed on the Johannesburg Stock Exchange (JSE). The results indicated that a traditional current assets leverage ratio, current liabilities divided by funds flow, displayed the greatest associations with return on investment. Gill et al (2010) investigated the relationship between current assets management and profitability of listed firms on New York Exchange. Findings indicated that there is a significant relationship between current asset management and firm's profitability. Julius and James (2021) findings showed that asset structure does not meaningfully affect the performance of industrial goods firms. Al-Qudah and Al-Afeef (2015) examined the relationship between the investment in current assets and profitability and liquidity for industrial companies listed in Amman Stock Exchange and found that there is a relationship between investment in current assets and profitability. In view of this, this study was carried out to determine the relationship between current assets investment and financial performance of listed industrial goods manufacturing firms in Nigeria. The study covered the period of 2011-2020 and included only publicly listed industrial goods manufacturing firms in Nigeria.

### **Current Assets Investment**

Current assets are the inventories, accounts receivables, and any other short-term investments held by an organization. Current assets management entails handling a firm's short-term assets to ensure the firm is able to continue its operation and that it has sufficient cash flow to meet maturing short-term debt obligations and future operational expenses. It also refers to all actions and decisions of the management which affects the size and effectiveness of current assets (Osirim & Moses, 2019). It is the management of short-term investments or assets of a firm with maturity less than one year. In the face of paucity of funds coupled with high cost of borrowing, investment in current assets and their management require a special and professional attention as the key principle is to maintain optimum level of current assets that is neither excessive nor inadequate.

Current assets are those resources under the control of the entity, arising from past events from which economic benefits are expected to flow to the entity, but are used up within one accounting period. In other words, they are assets that are convertible to cash and cash equivalents within one accounting period. Examples of current assets include trade receivables, inventories, prepayments, short term investments, among others. Current assets were described as life blood of every firm, hence primary task of every manager is to keep current assets flowing and use the cash flow to generate profits (Nangih et al, 2020). Current asset investment therefore entails the planning, organizing and controlling of the current assets of a firm. According to Khanqah, et al (2012), the current asset investment is a very vital sector of the discipline of financial management, Current assets comprises a greater portion of the total assets of a business. Current assets comprises of receivables, inventory, work-in-progress and cash that flow in and out of a firm during the operations of a business. The International Financial Reporting Standards (IFRS) requires that current assets are classified into five major groups: cash and cash balances, financial assets held for trading, derivative assets, loans and advances to banks and loans and advances to customers (Agbogun & Taiwo, 2020). Cash and bank balances are sometimes referred to as cash and cash

equivalents and it consists of cash in hand and demand deposits. Cash equivalents consist of call deposits with banks and other short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of variation in value with original maturity period of three months or less.

Ray (2012) has argued that the investment in current assets should be accorded prominence in the financial decision making. This is because current assets are a portion of the total assets invested in a business. Current assets also have a positive correlation effect on liquidity and profitability. Khanqah et al (2012) posited that the short-term financing needs of a business are closely tied to the efficient investment of current assets. If the firm optimizes its current assets investment, it will have the leverage to make available additional capital in order to conduct more strategic objectives, increase profitability and minimize the interest costs. Khanqah et al. (2012) stated that the fundamental objectives of the investment in current assets are as follows:

### **Financial Performance**

The subject of financial performance has received significant attention from scholars in the various areas of business and strategic management. The term is used as a general measure and has also been the primary concern of business practitioners in all types of organizations since financial performance has implications to organization's health and ultimately its survival. High performance reflects management effectiveness and efficiency in making use of company's resources and this in turn contributes to the country's economy at large (Owuor et al, 2021). Financial performance can be described as a measurement of how well a firm uses its assets from its primary model or business and general revenue. The term is also used as general measure of firm's overall financial health over a given period of time. The business directory defines financial performance as measuring results of a firm's policies and operations in monetary terms and these results are reflected in the firm's return on investment, return on assets, among others. Dogan (2013) investigating the effect of firm size and firm performance totally ignored other potential firm characteristics that had an effect on firm financial performance like investment strategy. Waweru (2013) investigated the relationship between board size and board performance further ignoring investment strategy which is an important element.

Financial performance indicates the performance of an organization quantified in monetary terms and reveals the general health in sustaining its operations (Gartenberg et al, 2019). Financial performance is ascertained by analyzing an organization's financial statements and records for a given period. It requires a well-developed financial management plan to achieve the organization's underlying objectives. In the various areas of strategic management and business, scholars have concentrated their works on the traditional indicators of financial performance. Bulle (2017) observed that the traditional indicator of organizational success has often been measured through the various financial matrices and indicators. However, Bulle (2017) observed that the perennial dilemma in achieving adequate financial management was the trade-off between profitability, liquidity, and solvency. Ebrahim et al (2014), states that financial performance analysis is the process of measuring the results of a firm's policies and operations in monetary terms. Also Bhunia et al (2011) affirmed that financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements and that the analyst attempts to measure the firm's liquidity, profitability and other indicators that the business is conducted in a rational and normal way; ensuring enough returns to the shareholders to maintain at least its market value.

**Theoretical Review**

A theory refers to a tried, tested, and verified ideology aimed at explaining and helping the general understanding of the relationship between the underlying phenomena (Julius & James, 2021). For the purpose of this study, the cash conversion cycle theory and modern portfolio theory (MPT) was employed. The cash conversion cycle theory was used to describe the underlying relationship between current assets investment and financial performance.

**The Cash Conversion Cycle (CCC) Theory**

The Cash Conversion Cycle theory was developed by Verlyn and Eugene in the 1980s and is a working capital management theory that enables firms to optimize their financial management operations (George et al, 2021). 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 theory further measures how much time it takes an organization to collect its accounts receivable and pay up its obligations without incurring any penalties, such as in the form of delayed vendor payments. Industrial good manufacturing firms with shorter CCC periods exhibited through high cash ratios were considered efficient and experienced optimal financial performance. In contrast, industrial good manufacturing firms with more extended CCC periods were deemed inefficient and characterized by being financially unstable (Oseifuah & Gyekye, 2017). According to Chang (2018), cash conversion cycle theory indicates the theoretical amount of time an organization takes to send and receive cash tied up in working capital, that is, current assets. The theory focuses on explaining how money tied up in working capital can quickly be converted into liquid cash to enable the success of meeting an organization's operational costs.

**CONCLUSIONS**

The study concluded that Trade receivable has negative relationship and does not significantly influence return on assets of listed industrial goods manufacturing firms for the period 2011 to 2020 in Nigeria. Cash and cash equivalent has positive relationship and does not significantly influence earnings per share of listed industrial goods manufacturing firms for the period 2011 to 2020 in Nigeria.

1. Cash and cash equivalent has negative relationship and significantly influence return on assets of listed industrial goods manufacturing firms for the period 2011 to 2020 in Nigeria.
2. Firm size has very strong positive significant moderating effect on the relationship between current assets investment and financial performance of listed industrial goods manufacturing firms for the period 2011 to 2020 in Nigeria.

**RECOMMENDATION(S)**

Based on the findings and conclusions of the study, the following recommendations were made:

1. Managements should develop sustainable debt collection policies that will achieve prompt debt collection within the shortest time possible, such as recommending the ideal 30 days to their debtors.
2. Firms should have optimum cash holding reserves. Therefore, efforts should be made by management to increase the value of the company through the funding policy, the provision of incentives to managers in the form of bonus shares, and improve company performance.

3. Firms should increase their current assets, but should keep it at an optimum level that will ensure that maturing short-term business obligations are met and at the same time avoid keeping excess idle funds. This is because excessive increase in current assets does not result in a proportionate increase earnings per share and return on assets in Nigeria industrial goods manufacturing firms.
4. Based on study findings on the variable firm size; it was established that there was positive relationship between current assets investment and firm size, hence it is highly recommended for firms to have optimum investment in current assets. Therefore efforts to be made by management to increase the value of the company through the investment policy.

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