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WORKING CAPITAL MANAGEMENT EFFECT ON MARKET PERFORMANCE: A STUDY OF THE DOUALA STOCK EXCHANGE (DSX)

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ABSTRACT

The key study strategy is to identify whether the management of working capital has a relationship with the viability of listed companies in Cameroon. Quantitative analysis is the research approach used. The consolidated panel data of 95 public entities from 18 zones are listed on the Douala Stock Exchange (DSX), which uses 390 findings from 2016 to 2020.
Descriptive statistics, the study of Pearson's Correlation, the analysis of Pooled Regression and ANOVA are used as analysis procedures. Working capital management elements and policies are used as independent variables that include the number of receivable account days (DAR), the number of inventory days (DI), the number of payable account days (DAP), the cash transfer period (CCC), the finance policies for working capital (WCFP) and the investment policies for working capital (WCIP).
The findings will help preserve optimum components and strategies for working capital management to deter organisational bankruptcy and improve the viability of the business.

1. Introduction

Working capital management has been an integral aspect of ensuring businesses' performance in recent decades (Allen, F. 2010). Due to the global financial crisis and the fall of several companies such as Lehman Brothers, WorldCom, Enron, and Bear Stearns, the growing attention of working capital management has been paid to (Bernanke, B.S., 2009). Globalization and rapid growth, in general, render companies more competitive, so management of working capital is necessary to compete with routine market activities. It is also critical because it is related to profitability. Maintaining adequate funds is key for corporations at any time (Atrach Zakria, 2020). The principle of working capital management is a short-term capital management mechanism that preserves liquidity at a satisfactory level to achieve business profitability (Haldane, 2011). Narula, 2020 notes the management of working capital as the measurement tool that influences the quantity and quality of working capital.

Working capital is synonymous with the company's existing assets and liabilities (Biggs, J.B., 2003). Current assets are assets that are turned into cash, usually within one year, of cash reserve, receivables, short-term deposits, accrued revenue, prepaid expenditures and inventories (Brad R. 2009). (MD. Abdul Kader, 2020). Profitability is a major priority of business leaders and is calculated not only by the performance of the commodity, but also by the growth of the demand for consistent success in optimising the wealth of the owner (Acharya, V., 2017). Hussain, 2020, notes that benefit can be used to measure the owner's performance, power, and valuation of the investment.

Recent reports in 2009 suggest that the business's management understands its optimum spending amount; however, its manager may not realise the exact optimal working capital management (Christian, 2016). Some approaches are used by administrators of organisations for working capital management activities that do not focus on financial standards but use poorly designed models. This practise thus leads to inadequate management of multiple part mixes of working capital available and eventually renders either overcapitalized or undercapitalized (Huang, 2013). Label (2016) notes that cash shortages can produce more short-term debt, but it affects the smooth long-term activity, and the financial manager cannot fund sudden cash needs.

Some financial managers neglect the companies' operational time, which allows the longer debtor's collection period and shortens the payment period of creditors. They used the cash transfer period to calculate the maintenance of working capital (Betz, 2014). The most recent study has been studied in developed markets. Still, Cameroon is one of the developing capital markets, and it will have greater insight and data on working capital management to explore Cameroon's context. Most of the listed companies spent a large proportion of working capital in 2014, and the way of spending and its effect on profitability is essential for analysis. While corporations are developing, they contribute

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significantly to national income (Caruana, 2010); (Statssa, 2020).There is a real struggle for Cameroon businesses to retain the optimum amount of working capital to support the market. Additionally, this result would allow managers of companies to improve the profitability of the business. Therefore, investors' trust will be boosted in favour of Cameroon's stock market, which would contribute to further economic development.

2. Literature Review

2.1 Explanation of WCM

The working capital management concept has not received much consideration than long-term investment and financial decisions. Borio, C., (2009) introduced cash conversion cycle approach to measuring working capital management. These researchers focus on the static view, operational cycle, and cash conversion cycle. In the static view, the current ratio is considered a vital indicator of a firm's liquidity, and the capital asset pricing model is employed. Conventional liquidity measure consists of current ratio and quick ratio (Schoenmaker, D., 1996). According to Graciela (2000), current and quick ratios are not efficient statistical view measures and forecast future cash flows. The operating cycle is the average period needed to get the initial outlay to produce, sell, and receive customers' cash. It provides the realistic, but it does not consider cash flow measures and fails to concern a firm's liquidity requirement by a time dimension. Due to the operating cycle concept's failure, the cash conversion concept has been taken as an alternative liquidity measure Gitman LJ., (1974). Stevens JL., (1996) described that the cash conversion cycle engages income statement and balance sheet with time perspective. This measure is seen as the best indicator to measure working capital management Sim, L. S. K., (2013).

2.2 Components of Working Capital Management

Working capital management can be divided into account receivable, inventory management, and account payable; however, most firms manage these components by different managers Sartoris W, Hill N., (1983).

2.2.1 Number of Account Receivable Days (DAR)

According to Lantz B. (2003), account receivable is defined as short-term loans given by the company to customers. Subsequently, offering a credit period for the customers is also an important thing to increase sales.

2.2.2 Number of Account Payable Days (DAP)

Account payable is defined as “When a firm constructs a purchase on recognition, it sustains a responsibility to reimburse for the commodities according to the conditions specified by the supplier and until the cash is paid for the goods the requirement to pay is proved in accounts payables” (Wagner, C. L., 1989).

2.3 Basic principles of Working Capital Management

The working capital policy can be seen from investment and financing perspectives. Aggressive financing policy can be defined as a high portion of short-term liabilities held by Sharma AK, Kumar S. (2011). Conservative financing policy is defined as the company uses long-term assets and short-term assets to finance the company’s short-term assets.

2.4 Firm’s Profitability

Fabozzi. FJ. (2003) said that the high percentage of profitability increases the business's external finance, which helps increase more profit in the future.

2.5 Past Studies on Working Capital Management on Firm Profitability

The literature on the working capital management on a firm's profitability is extensive. One literature stream finds that working capital management is negatively associated with a firm's profitability, whereas other studies positively link with its profitability. According to Deloof M. (2003), the cash conversion cycle to measure working capital management negatively correlates account payable and profitability. Soenen L. (1998) examined the linkage between net trade cycle and firm profitability and found a negative correlation between net trade cycle and firm profitability. Mathur, N. (2010) also shows a negative correlation between the receivable collection period and profitability rather than that there is no significant correlation between account receivable and inventory conversion period. Carpenter MD (1983) states that contradictory evidence on current assets and risk and research states that there is no linear correlation between US firms' current assets and systematic revenue risk. The working capital management on profitability studies is available related to the Cameroon context. Perera KL. (1997) described mostly large firms' practice formal policies whereas small and medium firms' practice informal policies. Thus, company size affects working capital policies. Jayarathne TA. (2014) findings suggest that profitability negatively correlates with the account receivable, inventory turnover period, and cash conversion cycle. Results reveal that working capital management policies are being practiced by Cameroon firms' which are different and affecting liquidity and profitability. Jahfer, A. (2016) explores a positive correlation between the cash conversion cycle and net operating profitability. Yogendrarajah R. (2013) found that the cash ratio has a high impact on net profit margin and asset return.

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3. Research Methodology

3.1 Data

This research consisted of all listed firms in Cameroon Stock Exchange (IDX) from 2016 to 2020. This research selected 95 listed firms' arbitrarily from 18 zones.

3.2 Data Analysis

For example, expressive analysis measures are utilized, median, maximum, minimum, and standard deviation, to analyze the variables. This analysis is used to evaluate the individual characteristic of the variables to understand the firms' performance.

4. Results and Discussion

4.1 Pearson's Correlation Analysis

Pearson's correlation analysis is employed to identify the connection among independent variables and dependent variables. WCM and the Firm's profitability are taken as research variables with control variables.

Table 1: Pearson Correlation analysis is shown

	DAR	DI	DAP	CCC	WCIP	WCFP	CR	SIZE	GROWTH	DR	GOP	ROA
DAR	1											
DI	0.006	1										
DAP	0.158**	0.081	1									
CCC	0.338**	0.520**	-0.678**	1								
WCIP	0.393**	0.533**	-0.368**	0.785**	1							
WCFP	0.233**	0.304**	-0.079	0.348*	0.431**	1						
CR	0.066	0.143**	-0.143**	0.227**	0.237**	0.067	1					
SIZE	-0.171**	0.066	-0.216**	0.132**	0.04	-0.026	-0.188**	1				
GROWTH	-0.053	0.087	0.151**	-0.094*	0.011	-0.055	0.140**	0.074	1			
DR	0	0.212**	0.048	0.085	0.061	0.047	-0.365**	0.240**	-0.027	1		
GOP	0.138**	-0.118**	0.407**	-0.330**	-0.279**	-0.013	-0.101*	-0.249**	0.063	-0.04	1	
ROA	-0.270**	-0.398**	0.297**	-0.594**	-0.450**	-0.351**	-0.157**	0.029	0.096*	-0.009	0.09	1

**. (2-tailed) Significant level at the 0.01 for Correlation analysis,
* (2-tailed) Significant level at the 0.01 for Correlation analysis.

The table.1 shows negative significant association among DAR and ROA ($r = -0.270$, $p < 0.01$), there is a negative significant correlation among DI and ROA ($r = -0.398$, $p < 0.01$), there is a positive significant correlation among DAP and ROA ($r = 0.297$, $p < 0.01$), and there is a negative significant correlation among CCC and ROA ($r = -0.594$, $p < 0.01$). According to the table.3, there is a negative significant association among WCIP and ROA ($r = -0.450$, $p < 0.01$) and a negative significant correlation among WCFP and ROA ($r = -0.351$, $p < 0.01$). The table 3, also represents negative significant connection connecting CR and ROA ($r = -0.157$, $p < 0.01$), there is a positive insignificant relationship among SIZE and ROA ($r = 0.029$, $p > 0.05$), there is a positive significant relation among GROWTH and ROA ($r = 0.096$, $p < 0.05$) and there is a negative correlation between DR and ROA ($r = -0.136$, $p > 0.01$).

4.1 Panel Data Regression Analysis

The Pooled Time Series Regression Analysis is developed based on pre-developed models and hypotheses developed to examine WCM constituents' effects, for example, DAR, DI, DAP, CCC of the firms' on profitability GOP and ROA. WCM policies' impact includes WCIP and WCFP on firms' profitability, such as GOP and ROA.

4.2.1 The Impact of DAR on GOP and ROA

Table 2: The impact of DAR on GOP and ROA

Variables Independent Variable	Regression Coefficients Firm's Profitability – Model 1	
	GOP	ROA
DAR	0.001**	-0.001***
Control Variables		
CR	-0.018***	-0.009***

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SIZE	-0.044***	-0.004
GROWTH	0.020**	0.010*
DR	-0.051	-0.037*
Constant	0.921	0.176
Adjusted R Square	0.100	0.100
F-Statistics	11.486	11.508

*** Significant at the 0.01 level (p<0.01)
** Significant at the 0.05 level (p<0.05)
* Significant at the 0.1 level (p<0.1)

According to table 2, the adjusted R2 of 0.100 statuses that DAR of the listed firms clarifies 10% of dissimilarity in GOP'. F-statistic is recorded as 11.486 and p-value is 0.000, which illuminating that in the general model is statistically significant. There is a positive correlation created between DAR and GOP, which evidence by the positive coefficient of 0.001 at a significant level of 0.05. This study's findings show that amplifying the number of days of account receivable (DAR) by a day has increased the firm's profitability (GOP) by 0.1%. There is a significant negative correlation between CR and SIZE with GOP. Still, GROWTH and GOP have a significant positive connection, and there is an insignificant negative association between DR and GOP.

The result reveals that adjusted R2 of 0.100 conditions that DAR of the listed firms explains 10% of deviation in ROA'. F-statistic is recorded as 11.508 and p-value is 0.000, revealing that the overall model is statistically significant. There is a negative connection between DAR and ROA, which confirms the negative coefficient of 0.001 at a significant level of 0.01. This result reveals that an increase in the number of days of account receivable (DAR) by a day has decreased the firm's profitability (ROA) by 0.1%. There is a significant negative correlation between CR with ROA. Still, there is an irrelevant negative correlation among SIZE, DR, and ROA, and there is a significant positive correlation among GROWTH and ROA. This finding contracts the effective management of working capital, and it contradicts from Tryfonidis D. (2006) and Martinez-Solano P. (2010).

4.2.2 The Impact of DI on GOP and ROA

Table 3: The impact of DI on GOP and ROA

Variables	Regression Coefficients	
Independent Variable	Firm's Profitability – Model 2	
	GOP	ROA
DI	-0.0003*	-0.001***
Control Variables		
CR	-0.016***	-0.005**
SIZE	-0.047***	0.001
GROWTH	0.020***	0.013***
DR	-0.014	0.023
Constant	0.998	0.080
Adjusted R Square	0.094	0.183
F-Statistics	10.822	22.249

*** Significant at the 0.01 level (p<0.01)
** Significant at the 0.05 level (p<0.05)
* Significant at the 0.1 level (p<0.1)

As indicated by table 3, changed R2 of 0.094 expressing that DI of the recorded firms clarifies 9.4% of variety in GOP', F-measurement is recorded as 10.822 and p-value is 0.000 uncovering that the general model is measurably huge. An outcome uncovers a huge negative connection amongst DI and GOP by the negative coefficient of - 0.0003 at a critical degree of 0.1 (p-value 0.072 < 0.1). This outcome uncovers that an expansion in the number of long stretches of Stock (DI) by a day has decreased its productivity (GOP) by 0.03%. There is a substantial negative connection between CR, SIZE, and DI, a positive critical relationship between Development and DI, and there is an irrelevant negative connection between DR and DI. The discoveries indicate that changed R2 of 0.183 expressing that DI of the recorded firms clarifies 18.3% of variety in ROA'. F-measurement is recorded as 22.249, and the p-value is 0.000, which uncovering that the general model is factually critical. Results uncover a negative critical relationship between DI and ROA by the negative coefficient of - 0.001 at a considerable degree of 0.1 (p-value 0.000< 0.01). This uncovers that broaden in the figure of long stretches of Stock (DI) by a day has diminished the association's productivity (ROA) by 0.01%. There is a critical negative connection between CR and ROA. There is a substantial positive relationship between Development and ROA, and there is an immaterial positive connection between SIZE and ROA.

4.3 The Impact of CCC on GOP and ROA

Table 4: The impact of CCC on GOP and ROA

Variables	Regression Coefficients	
Independent Variable	Firm's Profitability – Model 4	
	GOP	ROA
CCC	-0.001***	-0.001***
Control Variables		

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CR	-0.009*	0.000
SIZE	-0.040***	0.008***
GROWTH	0.012	0.003
DR	0.010	0.012
Constant	0.869	-0.057
Adjusted R Square	0.153	0.359
F-Statistics	18.136	54.070

*** Significant at the 0.01 level (p<0.01)
** Significant at the 0.05 level (p<0.05)
* Significant at the 0.1 level (p<0.1)

As indicated by table 4, changed R2 of 0.153 expressing that CCC of the recorded firms clarifies 15.3% of variety in GOP', F-measurement is 18.136 and p-esteem is 0.000 uncovering that the general model is factually huge. There is a substantial negative relationship between CCC and GOP by the negative coefficient of 0.001 at the massive degree of 0.01 (p-esteem 0.000 < 0.01). It shows that an expansion in the number of long periods of money transformation cycle by a day has diminished the association's benefit (GOP) by 0.01%. There is a substantial negative connection between CR and SIZE with GOP. There is an irrelevant positive correlation between Development and DR with CCC. The changed R2 of 0.359 expressing that CCC of the recorded firms clarifies 35.9% of variety in ROA'. F-measurement is recorded as 54.070 and p-esteem is 0.000, which uncovering that the general model is factually huge. There is a critical negative relationship between CCC and ROA by the negative coefficient of 0.001 at the massive degree of 0.01 (p-esteem 0.000 < 0.01). It shows that an expansion in the number of long stretches of money change cycle by a day has diminished its productivity (ROA) by 0.01%. There is a substantial positive connection between SIZE with ROA. There is an immaterial positive relationship with Development and DR with CCC.

4.3.1 The Impact of Working Capital Management Policies on Firm's Profitability

In this model, WCIP is considered independent. CR, SIZE, GROWTH, and DR are considered controlled variables, and GOP is considered dependent variables in the first model, and ROA is considered in the second model.

Table 5: The impact of WCIP on GOP and ROA

Variables Independent Variable	Regression Coefficients Firm's Profitability – Model 5	
	GOP	ROA
WCIP	-0.282***	-0.260***
Control Variables		
CR	-0.010**	-0.003
SIZE	-0.045***	0.003
GROWTH	0.018**	0.009***
DR	-0.029	-0.004
Constant	1.041***	0.123
Adjusted R Square	0.143	0.232
F-Statistics	16.821	29.692

*** Significant at the 0.01 level (p<0.01)
** Significant at the 0.05 level (p<0.05)
* Significant at the 0.1 level (p<0.1)

As indicated in table 5, the working capital investment policy (WCIP) of listed firms shows was a statistically significant negative correlation between WCI and the GOP. The adjusted R2 of 0.143 states that WCIP of the firm explains 14.3% of GOP variation, F-statistic is recorded as 16.821 and p-value is 0.000, revealing that the overall model is statistically significant. It means that WCIP ratio as reflected by total current assets to total assets decreases, or in other words, degree of aggressiveness of WCIP increases, GOP of listed firms' increases. It can be further explained that an aggressive working capital investment policy leads to increases in GOP. The working capital investment policy (WCIP) of listed firms shows a statistically significant negative correlation between WCIP and ROA. The adjusted R2 of 0.232 stating that the WCIP of the firm explains 23.2% of the variation in ROA, F-statistic is recorded as 29.692, and the p-value is 0.000, which revealing that the overall model is statistically significant. It means that WCIP ratio as reflected by total current assets to total assets decreases, or in other words, degree of aggressiveness of WCIP increases, ROA of listed firms' increases. In this model, WCFP is considered independent. CR, SIZE, GROWTH, and DR are considered controlled variables, and GOP is considered dependent variables in the first model, and ROA is considered in the second model.

4.3.2 The Overall Impact of Working Capital Management Components and Policies on Firm's Profitability

Table 6: the overall impact of CCC, WCIP, and WCFP on GOP and ROA

Variables Independent Variable	Regression Coefficients Firm's Profitability	
	GOP	ROA
CCC	-0.0004***	-0.001***
WCIP	-0.172**	0.031

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WCFP	0.156***	-0.103***
Control Variables		
CR	-0.008*	-0.00007
SIZE	-0.040***	0.008**
GROWTH	0.015*	0.002
DR	0.011	0.014
Constant	0.888***	-0.030
Adjusted R Square	0.166	0.379
F-Statistics	14.433	42.330

*** Significant at the 0.01 level (p<0.01)
** Significant at the 0.05 level (p<0.05)
* Significant at the 0.1 level (p<0.1)

The results in the table.6, show that adjusted R2 of 0.166 stating that CCC, WCIP explain 16.6% of the variation in GOP, and WCFP of the listed firms', F-statistic is recorded as 42.330 p-value is 0.000, which revealing that the overall model is statistically significant. There are significant negative correlations among CCC, WCIP, CR, SIZE, and GOP. There are significant positive correlations among WCFP, GROWTH, and GOP, and there is an insignificant positive correlation between DR and GOP.

5. Conclusion

This analysis was broken down to discover the impact of working capital administration on the competitiveness of the association and the calculation of reported businesses by the company over the period from 2016 to 2020. Administration of working resources plays an essential role in authoritative operations and is vital for proficient administration. Working capital administration considers segments of working capital administration, such as money owed, storage, and report receivables and methods, such as the strategy of working capital speculation and the strategy of working capital finance. In any case, it is essential to retain operating resources at the required degree so different categories of fields can be altered. Working capital deficit triggers the absence of liquidity that affects development and deals or profound working capital equilibrium, prompting the lack of potential speculation openings.

Results reveal a negative correlation between the period of money transition and profit figures of documented businesses. The overwhelming majority of the writing survey shows that the working capital administration negatively relates to the competitiveness of the association Lai L. 2012. (2012). The results note a negative correlation between the strength of working capital venture methods and solutions for funding working capital with the company's profit estimates, which Afza T upholds. (2009). 2009. It indicates that an improvement in the number of long periods of income conversion cycle by a day has reduced the benefit for the organizations' capital by 0.01 percent. With prior published works, the effect is predictable. There is a negative interaction in the working capital structures between working capital speculation and funding methods and the business's profit assessment.

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