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WORKING CAPITAL MANAGEMENT AND FIRM VALUE OF LISTED PHARMACEUTICAL COMPANIES IN NIGERIA

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ABSTRACT

This study examines the effect of working capital management (WCM) on the firm value of listed pharmaceutical companies in Nigeria. The study used the entire number of 7 listed pharmaceutical companies , with data drawn from annual reports spanning 2014 to 2024. This study employed descriptive statistics and panel estimation regression methods which yielded notable results: Account receivable period had a substantial favorable effect on firm value (t-stat. = 3.3168, p<0.05).The results further revealed that account payment period had substantial favourable effect on firm value (t-stat.= 3.6067, p<0.05). Moreover, inventory conversion period (t-stat=2.6401, p<0.05) had a substantial favorable effect on firm value. Furthermore, cash conversion circle (t-stat=-3.3728, p<0.05) had a substantial negative effect. The author concluded that WCM is a driver of improving firm value among listed firms in Nigeria. The research paper suggests that it is appropriate for pharmaceutical companies to control the working-capital cycle efficiently, making them more likely to attract and retain customers, thus adding value.
Keywords: Working capital management, firm value, inventory

Introduction

Pharmaceutical firms operate with a lot of capital, which is very critical towards the successful performance of the firms. Mismanagement of the working capital may cause fatal effects on financial health of the company. It is important to implement effective WCM systems that would make sure that there is adequate liquidity to settle the short-term successively and that the risk of financial distress is highly diminished (Bari et al., 2019). WCM is at the first line of financial strategy and has a direct impact on the liquidity of a company, its operational efficiency, and general performance in the field of finance (Adu, 2024). Ibrahim and Isiaka (2021) note that WCM framework provides a business with robust ability to ensure the liquidity of a company to meet the short-term obligations, in addition to maximising profitability (Iyalla and Ibrahim, 2023). Effective WCM in the ever-changing environment of the pharmaceutical industry is not only beneficial but it is a survival need. The companies usually have a presence of large stocks in order to fulfil customer needs, which may keep large sums of capital bound (Ibrahim and Isiaka, 2021). In addition, through streamlining of processes and optimization of operations, effective WCM can determine the value of a firm in the market. The practices, according to Ahmed et al. (2020), can not only strengthen the effectiveness of operations but also the financial stability of firms in the long term. This is one of the strategic imperatives that pharmaceutical firms aiming to achieve long term success must prioritise the WCM in an efficient manner in a world that every decision counts.

The concept of inventory management as suggested by Mandipa and Sibindi (2022) regards the strategic planning, organisation, and control of the purchase, storage, and use of products to satisfy customer demand at the minimal cost and maximum efficiency. The process is also closely connected with the working capital management, which is essential in keeping firms afloat and in good health (Hillebr &Ahmed, 2022). According to Herison et al. (2022), good inventory management symbolizes good working capital practices.. The connection between WCM and firm value in the listed companies in Nigeria is both considerable and complicated. Efficient WCM improves liquidity, operational efficiency and profitability thus impacting favorably on firm value. On the other hand, the liquidity crunch and the increase of financial risk can be triggered by suboptimal practices. Although WCM plays germane role in the economic development and health of the population, it is observed that many pharmaceutical companies in Nigeria have weaknesses in their WCM practices. Close management of current assets and liabilities is also necessary; however, empirical studies show that improper management of inventory, receivables, and payables undermine profitability and shareholder wealth (Ugwuegbe et al., 2022; Adeoye & Oke, 2023). The industry is moving in a rugged environment characterized by fluctuating exchange rates, supply-chain shocks, and regulatory uncertainty which makes decision-making in working-capital even more difficult (Akinyemi & Fadare, 2022).

The pharmaceutical industry in Nigeria has faced a major blow particularly in responding to the Covid-19 pandemic challenge. Sufficient funding is irreplaceable to counter this crisis; however, the (PSN) has raised concerns about the plight that the industry has been facing due to the abuse of the Drug Revolving Fund (DRF) by tertiary healthcare centers (Vanguard News, 2021). The DRF was also formed as an initiative of the World Health Organization (WHO) and the UNICEF in 1988 as part of the Bamako Initiative to ensure the constant supply and affordability of medicines in health facilities across the developing economies, including Nigeria.

Unfortunately, this fund has been not managed properly, and the effectiveness of the WCM in this industry is questionable. Although strategic value of WCM optimization is important, the empirical studies of direct influence WCM has on value of listed pharmaceutical firms are very limited in Nigeria. Such an evidentiary disadvantage prevents managers and investors to make informed decisions that can promote sustainable growth and value creation (Obiakor et al., 2023). While several studies (Thompson et al., 2025; Anene et al., 2023; Bello et al., 2025; Yakura & Usman, 2025) have explored this topic, their findings have been inconclusive—some indicating favourable effects while others suggest negative outcomes, with research limited to 2023. This context has prompted a new study focusing on WCM in Nigeria from 2014 to 2024. The particular goals are to investigate how the firm value of listed businesses is affected by the average collection time, average payment time, cash conversion cycle, and inventory conversion time

Literature Review

Conceptual Review

Firm value

Firm value refers to the total monetary value of a firm based on the perceptions of investors, stakeholders and financial markets. It summarises the present worth of the expected cash outflows of the firm in the future, and also puts into consideration the assets and liabilities of the firm. Ordinarily, the firm value is measured using parameters like market capitalization, enterprise value (EV), and Q of Tobin. All of these are the measures that reflect on the overall performance of the market in terms of the valuation of the company in terms of its equity and debt, thus being a complete picture of financial activity, growth, and risk profile (Oduro et al., 2023; Yekini & Oladipo, 2022). The aggregate market value of debt and equity is an effective way to determine firm value, which is in turn affected by the profitability, risks, growth opportunities, and the capital structure (Yekini and Oladipo, 2022). In the current study, Tobin Q is utilized as an important analytical measure.

Working Capital Management (WCM)

WC represents the lifeblood of a business, encapsulating the net current assets essential for daily operations. In accounting, it consists of current assets and current liabilities (Ibrahim & Isiaka, 2021). The net WCM , derived from the difference between these two components, serves as a critical indicator of a firm's ability to meet its short-term obligations (Mandipa & Sibindi, 2022). Effective (WCM) is not just about numbers; it involves making astute decisions that influence the size and performance of WCM. By skillfully balancing current assets and current liabilities, businesses can achieve their liquidity and profitability objectives (Ahmed et al., 2020). As a vital financial metric, WC computation unveils the dynamics between current assets and liabilities, allowing firms to expertly navigate cash flow while optimizing inventories, accounts receivables, and payables. Empirical research consistently emphasizes the importance of WCM in harmonizing short- to long-term profitability, which substantially impacts a firm's market value (Banerjee et al., 2021). Consequently, adept management of WC not only guarantees operational efficiency but also fortifies the financial health and market standing of a business, paving the way for sustained success and growth.

Account Receivable Period (ACP)

ACP refers to the time during which a company takes to recover its accounts receivable (Horne & Wachowicz, 2017). Slower collection is an indication of a protracted ACP that can adversely affect the liquidity of a firm. Accounts receivable is as a major component of WCM (WCM) that measures the amount of days it takes the company to collect the debt payments owed to the customer (Akinlo, 2012; Wasiuzzaman, 2015). As a substantial source of funding, accounts receivable is one of the most crucial areas of strengthening the operational capacities of a firm, particularly in the circumstances of cash shortage (Ferrando and Mulier, 2013; Wasiuzzaman, 2015).

Average Payable Period (APP)

APP measures the time that a company takes to obtain the goods or services and then pay the accounts payable (Gitman et al., 2015). The long APP indicates a slow payment to the suppliers, which may cause a bad connection with the suppliers and make the connection unfavourable to the credit facilities. In the larger spectrum of WCM, accounts payable is considered to be a basic component in the liability structure of a firm and a major source of secured short-term funding (Gitman, 2008). The account payable management is inversely related to the account receivable management (Sunday, 2018). This is due to regular business operations and these are temporary liabilities that companies can incur in instances where they do not have enough external funding, thus being able to keep operating despite the liquidity restrictions (Sunday, 2018).

Cash Conversion Cycle (CCC)

CCC evaluates the overall time of period of sale of inventory, collection of accounts receivable, and the collection of accounts payable (Chopra & Meindl, 2013). A lower CCC is an indicator of faster inventory turn into cash and hence increases liquidity and leaves a check on operating expenses. It gives the average number of days to convert the amount invested in the raw materials into cash, thus showing the cash flow trend as items move toward the cash reserves of the firm such as through suppliers, inventory and receivable and end up again in the cash reserves of the firm**.**

Cash Conversion Cycle (CCC)

The Cash Conversion Cycle (CCC) is a measure of the time needed by a company to realize its inventory into cash, which involves selling inventory, outstanding account receivable, and accounts payable (Chopra and Meindl, 2013). The lower the CCC, the increase conversion of inventory rate into liquidity, thus, enhancing the liquidity status of the firm and reducing the costs involved. The metric shows the average number of required days to convert money invested in raw materials to cash and it shows the flow of cash through the suppliers to inventory, via receivables back to cash. According to Barros and colleagues (2022), the CCC is a dynamic index that is based on the operations of the entities, combining the data obtained on the basis of the financial position and the income statement.

Inventory Conversion Period (ICP), in particular, refers to the average amount of time it takes a company in order to sell a certain amount of stock and consequently replenish it (Horne & Wachowicz, 2017). Low ICP will suggest that the inventory will be turned over faster and that will help to reduce the cost of storage and the chance of obsolescence.

Theoretical Framework

This paper uses the signaling theory as a means of exploring the credibility of various signals associated with the firm value. It looks into the connection of these signals to the values they are supposed to be reflecting, what determines the credibility of the signal and at what point of failure would the signal become untrustworthy enough to be no longer informational. In the recent scholarship, the use of signaling theory in management literature has increased, with scholars broadening the range of possible signals and situations where signaling can take place. When dealing with financial instruments, the signal of a firm is assumed to be an indication of what is likely to happen in the future that will involve cash flows, and any variance is likely to signify the potential presence of earnings variability. Signaling theory therefore provides a powerful explanatory model of explaining the links between the value of firms as predictors of future performance of pharmaceutical firms.

Empirical Review

Bello et al. (2025) undertook an insightful examination of the link between (WCM) practices and the firm value of listed pharmaceutical companies in Nigeria. Due to data constraints, the analysis was thoughtfully narrowed down to five of the eleven firms in the sample, ensuring a focused approach. Employing robust regression method, to showed four variables wield a significant influence on firm value. This compelling evidence highlights the crucial role of astute WCM in amplifying the FP of these firms, casting a spotlight on its undeniable importance in the competitive landscape of the pharmaceutical industry.

Yakura and Usman (2025) analyzed the link between WCM and the FP of listed pharmaceutical companies in Nigeria in the context of 2013 -2023. They have used panel methods data and found strong favourable link s between the performance of firms, the level of accounts receivables and inventory. The cash conversion cycle was established to be a material measure of prudent managerial efficiency, highlighting the ability of efficient managerial practices to enhance sectoral efficiency.

Thompson et al. (2025) examined how the WCM affects the FP of the listed consumable firms in Nigeria (2014-2023). Their empirical findings reveal that inventory holding period has an inverse influence on the return on equity (ROE) but a insubstantial beneficial impact on this figure is the receivables collection period. These results underscore the need to embrace effective WC approaches to improve performance.

Anene et al. (2023) investigated how the WCM variables and FP of pharmaceutical companies listed on the NGX depend on each other through the 20172022 timeframe. Based on four entities selected , the article states that all the elements of WCM have statistically substantial impact on the return on assets.

Mandipa and Sibindi (2022) explored WCM activities of South African retail companies listed on the JSE in 2010-2019. On their part, they indicate that such firms are characterized by conservative working-capital policies, which are marked by average collection periods and average account investments exceeding the average payment periods.

Anusi and Nduka (2022) examined how WCM affects the performance of a basic materials firm that was operating in Nigeria between 2014 and 2020. Their empirical work indicated that operating efficiency is found to have a favourable and substantial influence on the performance of the firms, but the time of accounts receivable and inventory conversion have very little effects. A similar study by Chen et al. (2022) looked at the linkage between WC

and corporate performance among Chilean manufacturing SMEs during a period of six years (201318). Their analysis revealed that a strong negative relation between net WC (NWC), accounts receivable (AR) and profitability existed but a favourable link existed between profitability, payables (AP) and inventories (INV).

Kurniawan et al. (2021) conducted another study on the interaction between profitability and WC in the determination of the firm value in the food and beverage subsector of the Indonesian Stock Exchange. Their results showed that profitability has a substantial effect on business value but a WC by itself is ineffective however, a combination of WC and profitability had a substantial effect on the overall firm value.

METHODOLOGY

The study utilized an ex-post facto design, focusing on all listed pharmaceutical companies on the Nigerian Exchange. . Secondary data were gathered from the corporate annual reports of these companies for the financial years 2014 to 2024. To analyze the data, panel regression estimation was used, along with relevant diagnostic tests.

Model Specifications

The models build on the studies of Yakura and Usman (2025).The models for this study are presented below. Hence the functional and econometric forms of model presented below

$$Tq = f(, Arp, App, Icp, Ccc\ ) \quad (3.1)$$

$$Tq_{it} = \beta_0 + \beta_1 Arp_{it} + \beta_2 App_{it} + \beta_3 Icp_{it} + \beta_4 Ccc_{it} + \beta_5 FSZ_{it} + \varepsilon_{it} \quad 3.2$$

Where;

Arp_{it}=Account Receivable Period
App_{it} =Account Payable Period
Icp_{it}=Inventory Conversion Period
Ccc_{it} =Cash Conversion Cycle
ε = Error terms
i = firm
t = time

Measurement of Variables

Variable	Label	Measurement	Source
Tobins q	TQ	is calculated by dividing the market value of the company's stock and the book value of its debt by the bv of all of its assets.	Ibrahim and Isiaka (2020)
Account Receivable Period	Arp	Accounts Receivable x 365) / Sales	Yakura and Usman (2025).Anene et al. (2023
Account Payable Period	App	Accounts Payable x 365 / Cost of Goods Sold	Thompson et al. (2025)
Inventory Conversion Period	Icp	Inventory x 365) /Cost of Goods Sold	Yakura and Usman (2025).
Cash Conversion Cycle	Ccc	Receivables Period Plus Inventory Period minus	Thompson et al. (2025) Anene et al.

		Payables Period	(2023
Firm size	Fs	Natural log of total assets	Anene et al. (2023)

RESULTS AND DISCUSSION

Descriptive Statistics

	TQ	ARP	APP	ICP	CCC	FS
Mean	1.0318	81.4942	258.025	142.244	-27.495	9.606
Median	0.9680	63.7667	135.636	105.893	33.1944	9.668
Maximum	3.1820	241.667	1513.351	510.889	444.759	10.82
Minimum	0.1240	11.5694	8.691	19.034	-1340.793	8.5778
Std. Dev.	0.4703	54.5318	298.052	110.282	286.011	0.621
Skewness	2.1354	0.9829	1.9789	1.242	-1.7589	-0.101
Kurtosis	9.8939	3.3039	6.7389	3.908	8.0005	1.856
Observations	77	77	77	77	77	77

Source: Author's Computation,2026

The outcome showed a summary of all the variables taken into account, as shown in Table 1. According to the study, the average Tobin's Q value was 1.032, meaning that each pharmaceutical firm may be worth N1.03k.. The results of average account receivable period revealed 81.49, implies that the companies used 81 days to collect their money and longer accounts receivable periods may make the company more attractive to buyers (like hospitals, pharmacies) who often face payment delays themselves. The account payment period revealed average of 258 days, indicating that companies are able to extend the time they take to pay their suppliers. Inventory conversion period showed an average of 142 days, indicating that pharmaceutical companies take longer to convert inventory into sales, their firm value also increases. An average (CCC) of -27.495 indicates that, on average, businesses are taking longer to convert their investments in inventory and other resources into cash flows from sales as the CCC increases. In terms of business size, the mean stands at 9.606. Notably, the presence of high kurtosis in the data for company TQ suggests that certain organizations experience significant extreme values, which may reflect unusual fluctuations in their financial performance. Conversely, the descriptive analysis shows that the skewness value remains within the typical positive/negative range, indicating a balanced distribution of data points without excessive bias in either direction.

Table 3: Correlation Matrix and VIF

	TQ	ARP	APP	ICP	CCC	FS	VIF
TQ	1.0000						NA
ARP	-0.1297	1.0000					1.2327
APP	0.1222	0.1307	1.0000				1.0399
ICP	-0.0412	0.4045	0.1830	1.0000			1.3368
CCC	-0.0029	-0.0441	0.0048	0.2498	1.0000		1.1750
FS	-0.3852	0.0002	0.0073	0.0757	0.2690	1.0000	1.0782

Source: Author's Computation. 2026

Table 3. revealed a weak and negative association between TQ and ARP given coefficient of -0.1297, This may serve as signal excessive risk, making investors hesitant to increasing their required rate of return. Conversely, APP exhibited a substantial favourable correlation with TOBQ(coefficient (0.1222), implies that companies are able to extend the time they take to pay their suppliers. Moreover, ICP exhibited a weak and negative association with TQ given coeff. value of -0.0412 and CCC given coeff. value (-0.0029) association with TQ respectively. In addition , Firm size exhibited a substantial negative correlation with TQ coefficient (-0.3852). The correlation coefficients of the other regressors are less than 0.5, indicating weak link s and no multicollinearity issues as confirmed by Variance Inflation Factor

Table 4 **Panel Regression Results**

Variables	**PE**	**RE**	**FE**
	(1)	**(2)**	**(3)**
C	4.4484***	4.7910***	5.8304**
	(5.4236)	(4.7579)	(2.6344)
ARP	0.0012	0.0007	0.00032***
	(0.7488)	(0.5808)	(3.3168)
APP	0.0028*	0.0038***	0.0046***
	(1.863)	(3.0533)	(3.6067)
ICP	0.0033*	0.0041**	0.0042**
	(1.833)	(2.7343)	(2.6401)
CCC	-0.0026*	0.0036**	-0.0044***
	(-1.7453)	(-2.871)	(-3.3728)
FS	-0.3461***	-0.3669***	-0.4535**
	(-4.0875)	(-3.5245)	(-1.9759)
R^2	0.21	0.24	0.54
F-stat	3.8595(0.0003)	4.5200(0.0012)	6.919(0.0000)
Durbin-Wat	0.84	1.14	1.55
Hausman Test			17.933(0.0030)

Source: Author's Compilation (2026)

Table 4 presents substantial findings, revealing a P-value of 0.003 from the Hausman Test, which affirms the superiority of the fixed effect model. An F-statistic of 6.919and a probability value below 0.05 highlight the model's robustness, indicating that WCM factors are critical in driving the firm value listed pharmaceutical enities . The R-squared value of 54% illustrates that a substantial portion of Tobin's Q variability is explained by the model, while the remaining 46% results from random error. A Durbin-Watson statistic of 1.55 suggests no autocorrelation among predictors, reinforcing their relevance.

In Table 4, it was observed that the period of accounts receivables made a strong favourable impact on firm value (t-stat = 3.3168, $p < 0.05$). This implies that drug companies with higher credit conditions would be in a position to raise the amount of sales, market share and firm value in the end. Reciprocity in the provision of credit can be understood in the market as financial strength and confidence in the collectability of receivables.

The findings also indicated that the accounts payable was substantial ly favourable ly related to the firm value (t-stat = 3.6067, p < 0.05). This means that companies that extend the period of time it takes to pay their suppliers i.e. longer accounts payable period increase the overall firm value and there is a statistically substantial link between this. Increasing the accounts payable period will enable the companies to hold more cash as a result of which liquidity will be enhanced and the money will be utilized on other productive investments or business requirements. This effective cash-flow management may help to increase the firm value.

Furthermore, the conversion period of the inventory (t-stat = 2.6401, p < 0.05) was substantial ly and favourable ly related to the firm value. This means that a firm with a long inventory turnover - i.e. a longer inventory turnover period, values its firms more since it is associated with having a larger stock of drugs and pharmaceutical products that can be used to overcome stock outs, meet demand spikes and larger customer base hence increasing sales and increasing firm value.

Additionally, the business value is substantially impacted negatively by the cash conversion cycle (t-stat = -3.3728, p < 0.05). This suggests that a company's worth decreases with the length of the CCC,. A brief cash conversion cycle can assist businesses in swiftly converting investments into liquidity, reducing the need for capital raising, lowering interest expenses, and boosting profitability—all of which build firm value.

. The firm size also exhibits a statistically substantial inverse impact on the value of a firm (t-stat = -1.9759, p < 0.05). It implies that bigger companies can face the challenge of bureaucratic stagnation, inefficiencies in their operations, and reduced agility. To overcome these issues, the management should focus on the implementation of new practices and seek operational efficiency.

Discussion and Findings

When the effect of the period on accounts receivable has a favourable and statistically substantial impact on firm value, it means that those firms having a longer period to pay the invoices i.e. a long accounts receivable period have a favourable change in the valuation of the firm. This empirical observation prompts managers to re-conceptualise accounts receivable not as the exposure to risk, but as a value creating instrument that is strategically used, provided that effective credit-risk management is in place. Long receivable periods can also make a company more appealing to buyers (including hospitals and pharmacies), who in their turn constantly experience lags in payments. A longer accounts receivable period would be an effective growth strategy that could increase sales and company value of the pharmaceutical firms in Nigeria when managed properly; however, close risk management is required to exclude the possibility of liquidity shortage and defaults. The first thing that is practically implied is the use of credit policies to create value and not merely diminish risk. This finding is consistent with the findings of Bello et al. (2025) and Yakura and Usman (2025), who reported the presence of a substantial impact of the average period of collection on the value of listed manufacturing companies in Nigeria.

The statistically substantial , favourable effect of the accounts payment period on firm value is an indication that the Nigerian pharmaceutical firms can improve their firm value with strategic management and, where possible, extension of the payment terms to suppliers.

However, such an approach has to be offset by the need to have better connection with suppliers and sustainability in business operations. The extra liquidity that was saved by paying later can be redirected on investments in research and development, marketing or capital projects hence further increasing firm value and competitiveness. The ability to negotiate and maintain a long duration of payment can be an indicator of a strong bargaining power and credit quality that can favourable ly impact investor perception and value of a firm. These results are supported by Bello et al. (2025) and Yakura and Usman (2025), but they contradict the results of Thompson et al. (2025).

The favourable and substantial impact of the inventory conversion period on firm value indicates that the high-inventory level can be a strategic advantage of the company in the case of the Nigerian pharmaceutical firms. It helps companies to fulfill customer demand on a reliable basis, absorbs a disruption in the supply chain, and may have an economies of scale-hence raising firm value. The inventory, however, should be well managed so as to avoid the negativities of obsolescence and the unwanted expenses. The adverse and strong impact of CCC on the firm value implies that, the pharmaceutical companies in Nigeria need to adopt strategies that maximize on the shortening of their CCC because the CCC to firm value is high. Effective CCC management is not simply an operation issue, however, it is a major shareholder wealth generator in the industry. Investors can consider long CCC companies as inefficient and riskier investments. Thus, those companies which maintain their CCC low can have more investors and ensure a higher market value. The same observation is documented by Bello et al. (2025) and Yakura and Usman (2025).

Conclusion and Recommendations

The author conclude that WCM is a driver to improving firm value among listed pharmaceutical firms in Nigeria. The research paper suggests that it is appropriate that pharmaceutical companies should control the working-capital cycle efficiently, making them more likely to attract and retain customers, thus adding value. The companies ought to offset this by ensuring healthy supplier link and making sure that the business practices are sustainable as they extend the payment period to the suppliers. Their inventory conversion period should be monitored and analyzed by the management regularly, with strategies taken to reduce it as far as possible without affecting the efficiency of the operations and customer link . The pharmaceutical firms in Nigeria are supposed to concentrate on lessening their CCC through effective management of inventory, receivables and payables. This could include streamlining inventory, accelerating receivables collection and negotiating the longer payable terms with suppliers.

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