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Volatility of Nigerian Business Environment: Impact of Strategic Working Capital Management on Small and Medium Scale Enterprises Survival

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Abstract
The general and common phenomenon among the administrators of the Nigerian economy and government business is the encouragement and orientation of citizens into the establishment and development of Small and Medium Scale Enterprises (SMEs) for the purpose of self-employment. This even necessitated the introduction of entrepreneurship development programmes into the curriculum of tertiary institutions in the country. Majority of small and medium scale Enterprises established in the Nigerian environment are however faced with the problem of sustainability. Some of the enterprises that are established, after tedious process of sourcing for capital, to see the light of the day, find it difficult to maintain continuity. Some of the enterprises even go into extinct. It is a clear indication of the fact that setting up an enterprise is not the only important phase of entrepreneurship development, but solvency and sustainability of the enterprises are also of paramount importance. Sustainability and solvency of a business greatly depends on the environment where it operates. The focus of this research is to establish the impact of strategic working capital management on sustainability of the small and Medium Scale Enterprises in the Nigerian volatile business environment. It is a shift of attention from the campaign of establishment of Small and Medium Scale Enterprises to sustainability. It is to establish the impact of the Nigerian volatile business environment on the sustainability of Small and Medium Scale Enterprises and the need for strategic working capital Management. The research considers the present volatile nature of the Nigerian business environment. A comprehensive review of working capital management was carried out. Empirical comparative study was made from published annual report of selected companies in Nigeria. The comparative analysis was interpreted which lead to the findings. Recommendations were provided. One of the recommendations is that small and medium scale entrepreneurs should always be aware of the working capital requirements of their business to maintain proportionate stock and turnover level in order to be at equilibrium all the time of operations of the enterprise.
Keywords: Working capital, Volatile environment, small and medium enterprises solvency, liquidity.

INTRODUCTION

The essence of entrepreneurship development is the creation of self-employment and wealth for entrepreneur, provide employment opportunities for the general community increase productivity level of the economy while the standard of living of the citizens is promoted. It is generally agreed and a common phenomenon that the development of small and medium scale enterprises goes a long way to achieve this. Entrepreneurship commences with the creation of goods and services for consumption. Consumption consequently creates utility. Utility creates thirst for consumption and consequently leads to production. By this, entrepreneurship is sustained, grown and developed. At the start of entrepreneurship is the mobilization of equity capital. However, for daily operating activities, the entrepreneur will require the circulating/operating capital which is the working capital. It should be realized at this point, that enterprises (including the small and medium scale) operate in a business environment.

The Small and Medium Scale enterprises in Nigeria operate in a volatile business environment and within an economy which is regularly steered by the government through its monetary and fiscal policies to achieve its own objectives. The market constitutes the public sector, Private Sector (the big, medium and small scale enterprises), the foreign investors (who will make profit and fly out the profit into their own countries) and the consumer himself (who the catalyst of production and will averagely be conservative). The small and medium scale enterprises, for their own continuity operates within the interaction of many factors and facilities such as suppliers, trade creditors, trade stock of raw materials, work-in-progress and finished goods, bankers credit facilities (short term and overdraft), taxation, dividend and so on. The above factors and facilities determine the sustainability of enterprises in every economy. They are germane to the continuity of business. They form the components of working capital. When not properly managed, the business may go into extinct which has always been the experience of Nigerian small and medium enterprises. Nigeria has one of the largest markets in the world whereby any product of good value would easily find a market despite the harsh business climate and delay in infrastructure. The need for strategic and effective working capital Management cannot be over emphasized. It is the heart beat of entrepreneurship because it is naturally factored into business operations and is scientifically explainable. Every human endeavor has an environment in which it can strive likewise the small

and medium scale enterprises. The environment limits the capacity to flourish. However fantastic a seed may be, there are some soils where it can never strive. When a small or medium scale enterprise choses to be oblivious of what is happening in the environment, it will face the problem of solvency, liquidity, sustainability and growth. This is because a business is not just created but is expected to flourish, innovate, be fruitful, multiply (grow) and replenish, within its environment.
In the blood stream of the environment are the components of working capital which rests at the same time dwells at the hearth of entrepreneurship development. The beginning of the success of a business is to analyse and understand the environment and the available working capital components to be able to achieve equilibrium between the dislocated environment and the survival instinct of the business. The entrepreneur will have to manage the working capital resources he is accessible to for the business accomplishment.

LITERATURE REVIEW

The Nigerian Practical Business Environment and the Small and Medium Scale Entrepreneurs

Practically, the environment which small and medium scale entrepreneurs carry out their businesses in Nigeria is volatile. This has always been a major constraint on the liquidity and solvency of the small and medium scale enterprises. The following are inherent in the Nigeria practical business environment:

- Suppliers are not willing to grant long credit extension periods to the small and medium scale enterprises (SMEs) compared to how they grant to the bigger companies. The suppliers' credit facilities go a long way to support the liquidity and solvency of entrepreneurs. This is 3because; a firm that buys on credit is in effect borrowing from the suppliers but at no cost.
- The bankers overdraft and short-term loan facilities which could have been alternative sources of borrowing to the small and medium scale Enterprises (SMEs) are characterized by their cut-throat interest rates resulting into funding of working capital at very high (and sometimes unbearable) costs. According to Okonjo-Iweala (2013).

  > "Sometimes the interest rates are outrageous. You cannot do business when the interest rates are high. If inflation in this country is 8.4 per cent, if the monetary policy rate is 12 per cent, why is the interest rate 20 per cent to an entrepreneur who wants to borrow? It means the real rate of interest in this economy is up to 11 per cent. In most economics, no rate of interest must exceed 2 – 3 per cent, even 5 per cent ------------- That is what is wrong with this economy. That is why small and medium scale enterprises cannot develop ----------------- We have to strengthen and clean up our banking sector so that they can give loans at affordable rates, we haven't done that."

- Bigger companies in Nigeria swallow up the smaller ones by their might. In many cases the bigger companies establish subsidiaries to take up business opportunities which the smaller ones are already engaged in. By this, the smaller ones face competition in the areas of sales demand and working capital. Examples are UAC of Nigeria PLC that has Mr. Biggs; Dangote Flour Mills PLC that has Dangote Noodles Limited, Dangote Pasta Limited among others.
- Inflation in the economy is another factor preventing smooth survival of small and medium scale Enterprises in Africa generally. Presently, the inflation rate is 8.4 per cent in Nigeria as stated above by Okonjo-Iweala (2013), who is currently the Nigeria coordinating Minister for the economy and Minister for economy and Minister of finance Okeke (2013) identified that inflation rate declined from 12 per cent in December 2012 to a four year low of 9.0 per cent in January, 9.5 percent in February and 8.6 per cent in March, 2013 The 2013 Federal Government budget had earlier stated 12.90 per cent. By this the IMF and World Bank raised Nigeria away from 10 world income rating to medium income rating in 2013. Abubakar (2013) in his own contribution observed that inflation went down to its lowest level in more than five years in the first quarter of 2013 by ending the quarter at 8.6 per cent. The free reduction was attributable to the absence of fear of fuel subsidy removal in 2013 (which characterized 2012 budget year). The federal government however projected that the inflation rate will remain single digit.
- A low sales return is also another factor affecting the investments in small and medium scale enterprises. The major market of Nigeria enterprises is within the country rather than exporting goods and services. "Nigeria's international trade has remained unbalanced as the volume of import within the last six months hit 92 per cent while export is 8 per cent". (Thor hauge 2013). Majority of the products required for industrial and private use in Nigeria come from the Middle East such as industrial raw materials, chemicals, electronics, iron, steel and tires. Some others such as frozen foods, cars, machines come from Europe. Nigeria mainly import items such as cars, electronics, construction materials, food items, chemicals, electrical fittings, machinery and even papers, among others, for industrial and private needs. Nigeria mainly export commodities such as a charcoal and agricultural produce. The increase in charcoal exportation recently has been due to the longer winter season experienced in Europe. The finished products exported from Nigeria recently experienced certain growth because major

manufacturing firms made Nigeria their production hub for the West African region.

- Another factor, relevant for discussion is the influx of the Chinese products into the Nigerian business environment. Many products which Nigerians have capability to produce are currently imported from China. The Chines firms have established themselves as main "homes" for buyers placing the local entrepreneurs at the risk of losing their valuable positions.

What is Working Capital?

Brealey, Meyers and Marcus (2007) observe working capital as "Short-term assets and liabilities". They further analysed that:

> "Assets and liabilities are separated into current and non-current amounts. Current assets are expected to be converted to cash or used in operations within one year or the operating cycle, whichever is longer. Current liabilities are obligations the company is expected to settle within one year or the operating cycle, whichever is longer. The difference between current assets and current liabilities is called Working Capital"

Glautier, Underdown and Morris (2011), in their own contribution stated that "working capital (also known as 'net current assets') is the difference between current assets and current liabilities". According to Inauga and Ajayi (2001) "working capital, as defined by the Chartered Institute of Management Accountants (CIMA), is the capital available for conducting the day to day operations of a business, normally the excess of current assets over current liabilities" Ibitoye (1985) stated as thus:

> "There is no generally or universally accepted definition of 'working capital'. Working capital may mean 'those funds used in acquiring current assets'. It may again be defined as 'the excess of current assets over current liabilities'. This second definition is the one recommended by the accountancy profession and is often called 'net working capital! The main difference between the two lies in the problem of management of each type and the fact that each has different appeal to different people".

Agara (2005) mentioned that "it is the net short-term funds and inventory of the firm after adjusting for short term debts". Gdede (2000) stated that working capital "Represents how much a firm had invested in short-term assets on a net basis…." According to Briscoe and Fuller (2007, working capital is "a company's liquid assets i.e. current assets (cash, debtors work in progress) less its current liabilities (creditors, taxes due) used to run its day-to-day operations".

By Summary, working capital simply refers to the circulating fund for day to day operations of an enterprise.

Components of Working Capital

In the description of working capital components, Brealey, Myers and Marcus (2007) identify current assets into four major types:

- Account Receivables (i.e. Debtors)
- Inventory
- Cash
- Short-term securities

Comprehensively, the components of working capital in organisations can be given as follows:

CURRENT ASSETS	**CURRENT LIABILITIES**
Cash	Trade Creditors
Inventory of raw materials	Taxation payable
Inventory of work-in-progress	Dividends Payments due
Inventory of finished goods	Short-term loans
Trade Debtors	Long-term loans maturing within one year
Marketable securities	Lease rentals due within one year

The figure size of each of the components for an entrepreneur depends on the nature and characteristics of the business.

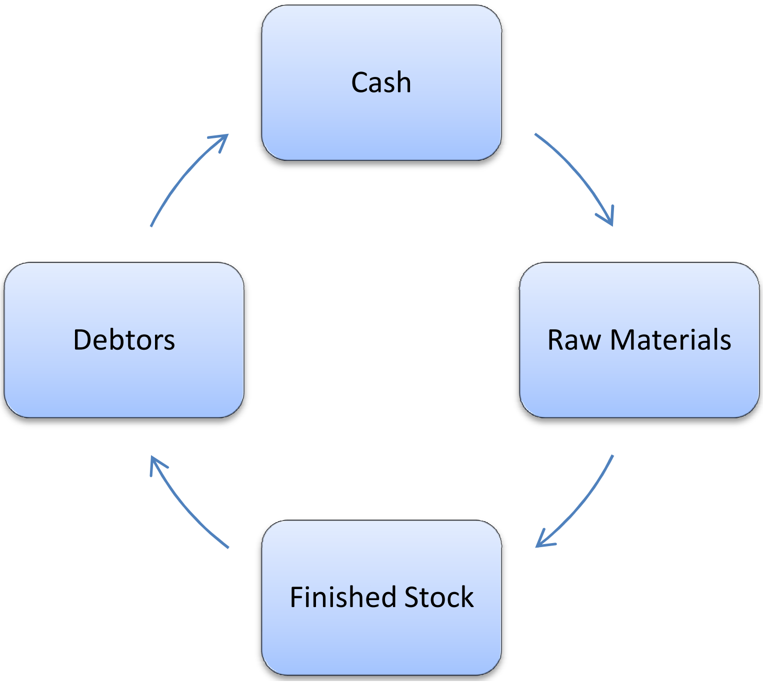
The Working Capital Cycle

The working capital cycle is the period of time which elapses between the point at which cash starts to be expended on the production of a product and the time of the collection of cash from the purchaser. This is also referred to as the cash operating cycle or trading cycle or cash conversion cycle. It is established by an entrepreneur as:

- The average days that raw materials remain in the inventory (warehouse),
- Less period of credit granted by suppliers,
- Plus the number of days taken to produce the goods,
- Plus the number of days taken by the customer to pay, for the goods.

Gdede (2000) defines working capital as "The number of days it takes it takes a company to purchase inventory, convent them into finished goods, sells the finished goods and collect the receivables from debtors as cash". This is a crude way of defining the working capital cycle, in my opinion. Wild, subvawanyam and Halsey (2007) describes the cycle as "The time period encompassing the buying – producing – selling and collecting cycle". Inanga and Ajayi define it as "the length of time it takes to convert raw materials to finished good or even to cash". They further clarified that there are two types of operating cycle:

- Internal operating cycle which refers to the period of time between the receipt of goods by the entrepreneur and sales of the goods;
- Cash operating cycle which considers the number of days credit is granted by suppliers and the number of days credit is granted to debtors for receipt of cash. The cash operating cycle is the period between the supplier being paid and the cash being received from the customer. Ibitoye (1985) described the working capital cycle in a diagrammatic manner thus:



Source: Ibitoye, S. (1985): Ibadan, Universal Press Limited, Pages.

If the number of days (turnover period) for the inventones and accounts receivable lengthen, or the payment period to suppliers (creditors), then the operating cycle lengthen with the implication that the working capital cycle will increase. The financial implication is that the longer the working capital cycle, the higher the fund required to finance working capital and the higher the cost of the fund thereby affecting profitability.

Working Capital Fund Requirement

After establishing the desired working capital cycle, an entrepreneur need to establish the total amount of fund required to finance its working capital for the sake of continuity in business. Where working capital is not adequately financed insolvency will set in while the business operation may collapse abruptly Inanga and Ajayi (2001) stated that "The amount of working capital is always ascertainable from a properly prepared balance sheet which shows the various working components." They further highlighted the important variables that should be considered when determining the amount of working capital requirement in advance as follows:

- The operating cycle;
- The cost of raw materials, wages and variable overheads estimated as likely to be incurred during the operating cycle period;
- The fixed assets of the business for the period;
- Any payment which has to be made in advance e.g. insurance and rent;
- The amount of selling and distribution overhead for the same period;
- The amount of stock-in-trade which must ordinarily be carried;
- The amount of credit allowed by suppliers to the business; and
- An allowance for the contingencies and reasonable expansion.

In his own work Akinsulire (2008) highlighted the following as factors that affect the amount of investment in working capital:

- Production cycle

- Nature of business
- Size of business
- Business fluctuations
- Credit policy
- Availability of credit
- Dividend policy
- Operating efficiency
- Price changes (inflation)

The amount of working capital need of an entrepreneur depends on the type of his business:

- Manufacturing business will usually have lots of stock of raw materials and work in progress.
- Merchandising businesses will have lots of finished goods stock.
- Businesses that deal on edible products like food stuff need to quickly sell their products due to their perishable nature.
- Some businesses incur expenses throughout the year but receive most of their movies at certain times of the year. Examples include private educational schools with boarding houses.
- Small business entrepreneurs may usually need to pay their suppliers immediately rather than being granted extended credits.

Liquidity and Working Capital

Liquidity of businesses is a matter of degree. The essence of liquidity of a business is best measured and appreciated by the consequences and repercussions stemming from the inability of a business to meet its short-term obligations. Lack of liquidity will prevent a business from taking profitable opportunities. More extreme liquidity problems can lead a business to forced sale of investment properties at reduced prices and in its most severe form, to insolvency and bankruptcy. The danger of liquidity problems of a business can be further enumerated as follows:

- Personal assets of the entrepreneur may be endangered;
- Creditors may lose the amount of money due to them,
- Inability to execute contracts
- Damage to important customers and suppliers relationships.
- If a business fails to meet its current obligations, its continued existence may be doubtful.

Generally, establishment of businesses through entrepreneurial skills acquisition assumes indefinite existence of the enterprise. However, it is important that a business must always assess the validity of such assumption using liquidity measures. Wild, Subramanyam and Hasley (2007) asserted that "working capital is a widely used measure of liquidity ------------------- it is also important in measuring the liquid reserve available to meet contingencies and uncertainties surrounding a company's balance of cash inflow and outflow". Working capital can also measure and indicate whether a business is overtrading or overcapitalized and if a business is likely to fail.

The measurements of liquidity, overtrading, overcapitalization etc are carried out by the computation and analysis of working capital ratios as follows:-

- Current Ratio $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}}$
- Quick Ratio $= \dfrac{\text{Current Assets less inventories}}{\text{Current Liabilities}}$
- Debtors period $= \dfrac{\text{Trade Debtors}}{\text{Credit Sale Revenue}} \times 365 \text{ days}$
- Inventory Turnover period $= \dfrac{\text{Average Inventory}}{\text{Cost of Sales}} \times 365 \text{ days}$
- Creditors payment period $= \dfrac{\text{Trade creditors}}{\text{Purchases or cost of Sales}} \times 365 \text{ days}$

METHODOLOGY

The research was carried out by formulating the hypothesis:

H_0 : The volatility of business environment does not deplete the working capital of small and medium scale enterprises in Nigeria.

H_1 : The volatility of business environment depletes the working capital of small and medium scale enterprises in Nigeria.

The research hypothesis was tested by comparative analysis of the working capital profile of some selected companies in Nigeria. The published annual reports and accounts for 2011 and 2010 were used as the research instrument. The instrument is used because it is the most reliable instrument in this particular situation. It is the published, audited and certified annual output of the financial operations of the companies. The companies were selected and categorized by scale of operation – Large Scale, Medium Scale and Small Scale enterprises. The scale of the companies' operations was determined based on individual company's turnover level for 2011 and 2010. The selected companies are as follows:-

S/No.	Enterprise	Turnover (N'000)		Scale of operation
		2011	2010	
1.	UAC of Nigeria PLC	673,588,189	52313682	Large Scale
2.	Dangote Flour Mills PLC	66,281326	67,600,954	Large Scale
3.	Lafarge Flour Mills PLC	62,211,143	43,841,325	Large Scale
4.	The Okomu Oil Palm company PLC	11,121,011	6,087,836	Medium Scale
5.	Badmus Chemicals Limited (Fictitious)	396,416	265,606	Small Scale

The annual report and accounts of private limited companies (which are majorly small scale enterprises) are not published. A fictitious company i.e. Badmus Chemicals Limited with self-generated annual reports and accounts for 2011 and 2010 was presented so as to facilitate comparison.

Limitations

The research was based on only four published annual reports and accounts due to the fact that majority of small and medium scale enterprises are private limited companies which are not mandated by law of the land to publish their accounts. Personal visitation to smell of the small and medium scale enterprises to obtain their audited financial statements proved abortive.

DATA PRESENTATION

The working capital profiles of the selected companies are presented as follows:-

UAC OF NIGERIA PLC
CONSOLIDATED FINANCIAL STATEMENT (EXTRACT) AS AT 31st DECEMBER

	2011	**2010**
	₦' 000	₦'000
Current Assets		
Properties under construction	17,274,405	23,056,355
Stocks and work-in-progress	11,271,743	8,440,019
Debtors and prepayments	13,505,879	9,805,625
Cash and bank balances	15,262,927	7,246,162
Total current assets	57,314,954	48,548,161
Current liabilities		
Bank loan/overdrafts	16,203,367	7,081,960
Taxation	3,560,891	3,382,150
Trade and other creditors	17,959,106	19,478,372
Dividend payable	2,049,481	2,118,820
Total current liabilities	39772845	32061303
Third party turnover	673,588,189	52,313,682
Cost of sales	(45,606,720)	35,863,475)
Gross Profit	17,981,469	16,450,207

Source: UACS of Nigeria PLC, published 2011 annual report and accounts.

DANGOTE FLOUR MILLS PLC
AUDITED CONSOLIDATED FINANCIAL STATEMENT (EXTRACT)
As at 31st December

	2011	2010
Current Assets		
Stock	12,021,921	8257459
Trade Debtors	8,597,502	11,643,808
Other Debtors and Prepayments	2,340,529	1,223,495
Due from subsidiaries	-	-
Due from related parties	1, 3196480	5,066,198
Bank and cash	2,431,519	2,190,071
	38,587,951	28,381,031

Creditors: Amount Falling due within one year		
Bank Loan and Overdraft	23, 2961,158	7,976,685
Trade creditors	4,701,607	10,875,644
Other creditors and acruals	-	-
Due to subsidiaries	216,669	1,900,472
Loan from payment company	5,790,342	6,050,000
Taxation	1,333,931	1,001,464
Term loan	2,120,978	1,881,052
Due to related parties	50,508,228	38,226,421
Net current (liabilities)/Assets	(11,920,277)	(98,384,318)
Turnover	66,281,326	67,600,954
Cost of sales	(56,582,360)	(57,398,306)
Gross Profit	9,698,966	13,202,698

Source: Dangote Flour Mills PLC published 2011 Annual Report and accounts.

LAFARGE CEMENT (WAPCO) NIGERIA PLC
CONSOLIDATED FINANCIAL STATEMENT (EXTRAT) AS AT 31ST DECEMBER

	2011	**2010**
	₦'000	₦'000
Current Assets		
Stock	10,282629	9,728462
Trade Debtors	641,384	569,576
Other Debtors and Prepayments	1,422,158	1,555,832
Due from related companies	1,247,954	566,834
Short term investment	1,054,000	-
Cash at Bank and in hand	10,297,526	5,248,241
	24,945,651	17,668,945
CREDITORS: Amount falling due within one year		
Bank overdraft	-	1,411,535
Trade creditors	5,294,185	2.113,675
Other Creditors and accruals	662,401	7,368,080
Provisions	4,038,215	45,183,245
Due to related companies	2,278,382	865,520
Taxation	886,672	833,016
	32,487,776	58,070,071
Turnover	62,211,143	43,841,325
Cost of Sales	(42,666,564)	(30,535,335)
Gross Profit	19,544,579	13,305,990

Source: Lafarge cement (WAPCO) PLC published 2011 annual report and accounts.

THE OKOMU OIL PALM COMPANY PLC
AUDITED FINANCIAL STATEMENT AS AT 31ST DECEMBER

	2011	**2010**
	₦'000	₦'000
Current Assets		
Stock	1,159,882	998,123
Debtors	982,013	709,692
Cash and Bank Balances	2,864,961	544,898
	5,006,856	2,252,713
Creditors: amount falling due within one year	(777,932)	(943,048)
	(770,900)	(36,256)
Net Current Assets	3,458,024	1,273,409
Turnover	11,121,011	6,087,836
Cost of sales	4,267,356	2,258,584

Notes of Accounts

- **Stocks**

Fuel and lubricants	48,237	82,323
Spare parts	268,004	381,169
General store and various materials	109,208	67,033
Agricultural consumables	117,655	139,426
Goods-in-Transit	-	249,831
	1,159,882	998,123

	2011	2010
	₦'000	₦'000
Trade Debtors	103,354	197,197
Advances to Suppliers	327,728	437,435
Staff and Sundry Debtors	60,979	40,949
Due from related company	478,509	-
Employees' Share trust loan	228	28,076
Prepayment	11,215	-
Other debtors	-	-
	982,013	709,692
Creditors: amount falling due within one year		
Trade creditors	161,244	214,903
Advances by customers	73,778	206,138
Due to related companies	-	130,568
Other creditors	115,610	87,371
Accruals and deferred income	209,164	71,261
Unclaimed dividends	69,364	69,364
Term loan	121,246	147,703
Pension and other retirement benefits	27,526	15,733
Bank Overdraft	-	7
	777,932	943,048
Turnover	11,121,011	6,087,836
Cost of sales	4,267,356	2258584
Gross profit	6,853,655	3,829,252

Source: The Okomu Oil Palm Company PLC Published annual report and Accounts 2011.

BADMUS CHEMICAL NIGERIA LIMITED
BALANCE SHEET AS AT 31ST DECEMBER (EXTRACT)

	2011	2010
	₦'000	₦'000
Current Assets		
Stocks	57,236	65,559
Debtors	33,968	31,554
Quoted investments	946	946
Cash and Bank Balances	10,200	25,100
Creditors: Amount falling due within one year		
Net Current Assets		
Turnover	396,416	265606
Cost of Sales	262,000	248,000
Gross Profit		

NOTES

	2011	2010
	₦'000	₦'000
• Creditors: Amount falling due within one year	15803	11619
Trade creditors		
Other creditors and accruals	45,000	56,000
Short term loan	12,580	14,184
Bank Overdraft	18,079	13,388
Taxation	9,279	4,189
Dividend	8,000	1,000
Personally generated figures (fictitious)		

Test of Research Hypothesis
H_0 : The volatile business environment does not deplete the availability of working capital of small and medium scale enterprises in Nigeria.
H_1 : The volatile business environment depletes the availability of working capital of small and medium scale enterprises in Nigeria.
The hypothesis was tested by comparative analysis of the working capital profile of the selected companied from the data presented above. The analysis is as follows:-

OPERATING CYCLES (DAYS)

	UAC OF NIGERIA PLC		DANGOTE Flour Mills PLC		LAFARGE CEMENT (WAPCO NIGERIA PLC		THE OKOMU OIL PALM COMPANY PLC		BADMUS CHEMICAL NIGERIA LIMITED	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
(1) Accounts receivable (Trade Debtors) payment period	78	68	47	74	4	5	01	(01)	31	43
(2) Inventory Turnover period	90	86	78	53	88	116	63	35	79	96
(3) Accounts payable (Trade creditors) payment period	(143)	(198)	(30)	(69)	(45)	(25)	14	36	(22)	(17)
Operating Cycle	25	(44)	95	58	47	96	78	70	88	83

Interpretation of Results
The data presented above are interpreted by scale of enterprise and by components of working capital. The businesses are considered one after the other with their scale of operations analysed in trends and related to the working capital components and their operating cycle.

UAC OF NIGERIA PLC
By the turnover figures of ₦63, 588,189,000 and ₦52, 313,682,000 in 2011 and 2010 respectively, UAC of Nigeria PLC is definitely a large scale enterprise. The company maintains raw materials stock in the store, production process and finally sells finished goods to customers averagely within ninety and eighty six days in 2011 and 2010 respectively. These are rather too long periods (i.e. average of three months) which implies inventory turnover of four times a year. This is compounded with payment period of average of seventy eight and sixty eight days in 2011 and 2010 respectively. The cushion is however provided by the benefit of long credit extension provided by suppliers for one hundred and forty three days and one hundred and ninety eight days respectively, on the overall resulting to twenty five days net trading cycle in 2011 and negative of forty four days for 2010. Invariably, UAC of Nigeria PLC runs its daily operations with the cost fee short term loan provided by its suppliers. They need no overdraft or short-term loan from the bankers.

DANGOTE FLOUR MILLS PLC
The annual turnover of ₦66, 281,326,000 (2011) and ₦67,600,954,000 (2010) indicate this company to be a large scale enterprise. The inventory turnover period is seventy eight (2011) sixty eight (2010) which

approximates to five times a year. This may be too long for a business in the food industry. The debtors' payment period also compounds the problem as it indicates average of forty seven and seventy four days for 2011 and 2010 respectively. Little shock absorber has been provided by their suppliers credit extension of thirty days and sixty nine days for 2011 and 2010 respectively, resulting into operating cycle of between ninety-five and fifty eight days per annum which implies average of two and a half months to recover cash invested in daily operations. This may not be problem as the company is large enough to enjoy short-term loan and overdraft to fund the working capital cycle days of two and a half months.

LAFARGE CEMENT (WAPCO) NIGERIA PLC

This company has turnover of between approximately ₦62bn and ₦43bn per annum implying large scale enterprise. The period of stock turnover is between eighty eight and one hundred and sixteen days (i.e. average of three and a half months).

The company compensates for this by ensuring that they do not give more than five days credit extension to the trade debtors while at the same time they enjoy longer credit extension period from their suppliers (i.e. between twenty five and forty five days). The overall result is net trading period of between forty seven and ninety six days. This company is in a manufacturing group which supplies the construction industry. It is expected to have a relatively lengthy working capital cycle.

THE OKOMU OIL COMPANY PLC

This company with approximately between ₦6bn per annum is a medium scale enterprise. The company is in the agriculture group. It has a stock turnover of between thirty five and sixty three days (i.e. average of one and a half months). This may not be healthy for an agro-business company whose finished products are perishable.

The daily operating problem of the company is compounded by the zero days credit extension period from the suppliers. Rather the company pays suppliers in advance of between fourteen and thirty six days every year. The company is consequently not granting credit extension to its customers.

BADMUS CHEMICAL NIGERIA LIMITED

The turnover of between ₦12m and ₦14m per annum indicates small scale enterprise striving to survive in the chemical process group. The inventory turnover period of ninety six and seventy nine days is on the high side. The debtors payment periods of thirty one and fort three days (approximately one and a half months) with a shorter period of suppliers credit extension period of between seventeen and twenty two days (approximately half a month) made the trading cycle a too long period for this small scale entrepreneur. The business will eventually always rely on bankers' short-term loan and overdraft to fund liquidity and solvency.

CONCLUSION

The comparative analysis carried out earlier clearly indicates that the environment is not friendly with the medium and small scale enterprises. The UAC of Nigeria limited could obtain periods of credit extension from their suppliers longer than the periods they grant their customers. Likewise Lafarge Cement (WAPCO) Nigeria PLC Dangote Floor Mills PLC. Dangote Floor Mills PLC received reasonable period of credit extension. The Okomu Oil Palm Company PLC had to even deposit cash in advance for supplies of raw materials which materials are purchased on credit. It is the same as getting loan from the suppliers. The larger enterprises could rely comfortably on the credit facilities of their suppliers to fund their working capital requirement. This is a guaranteed solvency to the large scale enterprises.

The medium and small scale enterprises have to rely on short-term loan and overdraft to fund their working capital requirement. The availability and cost of borrowing of such short-term loan and overdraft are different ball games to contend with. This may hinder sustainability growth and expansion of the small and medium scale-enterprises.

RECOMMENDATION

Strategically managed working capital ensures that an entrepreneur will always be able to continue its operations. It also ensures that the enterprise is solvent to satisfy both maturing short-term debts/obligations and the upcoming operational expenses. As the working capital is generally acclaimed to be one of the basic matrices used to evaluate a business financial health, entrepreneurs are strongly advised to focus on the trend of each component of working capital and apply strategic policies on regular basis. Credit analysis should always be carried out. Entrepreneurs could always dwell on enterprise zones to enjoy tax free operations. The Federal government on its part could establish and develop Bank of Industry which will be able to grant overdraft and short-term loan to small and medium scale entrepreneurs at lower interest rates. Like the Chinese home government, the Nigerian government could provide business information to the small and medium scale enterprises on areas of business opportunities and comfortable sources of finance.

Small and Medium scale enterprises should always be aware of the level of their working capital requirements of their respective business so as to maintain proportional stock and turnover levels in order to be at equilibrium all the time of operation of the enterprise.

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