

Analysis of Effective Working Capital Management on Business Sustainability: Accounting Standards as Moderating Variable

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Abstract

This research is primarily targeted at reviewing the impact of effective working capital management on business sustainability—the applied accounting standards as moderating factor. It serves as a complement to filling the practical gap on the impact of effective working capital management on business sustainability by adopting a meta-analysis of several independently published annual report and accounts from 2019 to 2021. No doubt, the COVID-19 pandemic has occasioned gaps in trade finance. Within the context of international trade, the identified disruption includes significant operational challenges for the processing of trade finance transactions, and the increase in risk aversion due to credit and sovereign risk deterioration thereby focusing on safer businesses. More specifically, the World Economic Forum estimated the global trade finance gap as US\$2.5 trillion by 2025 as supply chains would continue to be reallocated to developing countries with non-mature financial systems (Auboin, 2021). The research population is the entire fifty-four (54) countries in Africa and taking a statistical position from Africa's Gross Domestic Product (GDP) which was US\$2.354 trillion in the year 2020. This research adopted a systematic sampling of clusters considering that the population of Africa by GDP consists of discrete clusters with similar characteristics—this means that the units within each cluster are as heterogeneous as units in the overall population. Africa subregional categorization was used to ensure comprehensive inclusivity in the research sample selection. This resulted in mapping the subregions as -- North, South, West, and East. While the country with the highest GDP contribution to the total African GDP under each subregion categorization was selected as the research sample. Eventually, the selected countries include—Egypt (North Africa), South Africa (Southern Africa), Nigeria (West Africa) and Kenya (East Africa). This represented a 50.66% aggregated GDP contribution to the total African GDP in 2020. The selected entities within the African countries are businesses operating in the real sector (Agribusinesses) that are listed on the stock exchanges. The research study used the SPSS-Structural Equation Modeling (SEM) for descriptive statistics and to

process the meta-analysis data. This formed the basis for testing the formulated hypothesis and providing answers to the developed research questions. The software application assessed the relationship between working capital components and business sustainability. Data measurement for the working capital variable was defined as current assets minus current liabilities—which were evident in the published audited financial statements of the selected entities across the African continent. Furthermore, the data measurement for the business sustainability variable was defined as the total assets accumulated over the years under review. Total assets are the total non-current assets and the total current assets. It was discovered that the shape of the line showing the systematic movement in the net current assets to total assets (explaining the business sustainability variable) is nearly proportionally the same as that of the working capital (explaining the working capital management efficiency) on a three-year comparison—this finding was consistent across the selected entities in West, East, South, and North African subregions. Furthermore, the finding is consistent with the meta-analysis that was performed to test the formulated hypothesis. The study recommends that business leaders and those charged with governance are expected to ensure efficient working capital management which subsequently translates to business sustainability.

Keywords: Agribusiness, Business Management, Corporate Governance, Financial Analysis, Meta-analysis, SDG 17