

# Effect of Working Capital Management on Financial Performance of Islamic Banking in Nigeria

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## Abstract

Much attention is now focused towards Islamic banking, as some scholars have claimed that it has a uniqueness in managing risk. The objective of this study is to examine the role of working capital management on the financial performance of Islamic banks in Nigeria. Audited financial statements of a famous Islamic bank in Nigeria, Jaiz bank Plc from 2013-2022 were used to extract data for the variables listed. Purposive sampling was used to select the series. Generalized least square was used to test the three hypotheses. The regression results of hypothesis I indicated that, day sales outstanding (*Murabaha* receivables) is positively and insignificantly related to financial performance. The coefficient of 0.000905 signifies that 1% increase in *Murabaha* receivables will translate into 0.000905 increase in financial performance of Jaiz bank. This finding adds to the continuous debate that Islamic banks should move from *Murabaha* products that are less risky to profit sharing products such as *mudharaba* and *musharaka*. The result of hypothesis II reveals that customers' deposit (DPO) has significant negative impact on financial performance of Jaiz bank with a coefficient of -0.002438. Hence, one percent increase in delay payment to customers will increase the bank financial performance by 0.002438. This will increase liquidity, and also serve as an opportunity for investing in liquid assets such as *Sukuk* or other short-term marketable securities. That will motivate customer deposits, and hence improve the bank's financial performance, and consequently increase shareholders' value. The hypothesis III shows a coefficient of 0.1135 which reveals that when other bank balance is increased by 1%, financial performance will reduce by 0.1135. Although this is not unconnected with the fact that some balances are with Central Bank and yield no interest. To enrich this concept, it is recommended to extend the study to other Islamic banks, or make a comparative study between Islamic and conventional banks.

**Keywords:** Working Capital Management, Financial Performance, Jaiz bank.

## 1. Introduction

The persistent financial crisis globally has casted doubts on the proper functioning of conventional banks as well as Islamic banks. In search for a viable alternative, an increased attention is focused on Islamic banking, as some scholars have pointed to their superior performance during crisis (Hasan & Dridi, 2010). It is imperative to assess how effective a company can use its resources in its core business operations to generate income. Financial performance is used as a method of measuring the financial health of businesses over a specific period, and can be used to compare businesses in the same industry or sector (Majeed & Zainab, 2021). This is crucial to the attainment

of company objectives. Understanding how to employ working capital management to enhance the company's financial performance is a good signal to achieve short term solvency. This is imperative for a firm's financial health and hence can curtail financial distress (Ramiah *et al.*, 2014; Obafemi *et al.*, 2021). Current assets and liabilities form the elements of working capital; hence to figure out the proportion of the alignment between them is decisive in attaining company objectives. This may play a big role in avoiding operational disruptions or financial distress, such as cash flow insolvency or credit rating downgrade.

Proponents of Islamic banking argue that the business model of Islamic banks has higher efficiency and stability, while its critics maintained that Islamic and conventional banks differ only in form. Although still in its early stages, Islamic banking has been expanding in Nigeria. Islamic banks are governed in Nigeria by the Non-Interest Financial

(NIFI) Services Guidelines issued by the Central Bank of Nigeria. Early in the 2010s, Nigeria witnessed the establishment of Jaiz bank Plc, as the first full-fledged Islamic or rather non-interest bank. With a network of branches spread across Nigeria, Jaiz bank Plc is currently the most known Islamic bank in the country. Taj bank Ltd and Lotus bank Ltd have joined the promising list of Islamic banks in Nigeria. Despite this, the Nigerian Islamic banking industry faces the challenge of creating its niche within the well-established conventional banking ecosystem. However, given the rising demand for Islamic financial services, there are prospects that Nigeria's Islamic banking sector can continue to expand and contribute more significantly to the nation's sustainable economic and financial development (Saadatu *et al.*, 2023; Raheman, 2018). Beside sentiments, Islamic banks have to prove that its business model is superior in efficiency and stability. In other climes, Islamic banking makes a modest contribution to economic growth. In a sample that contained all the Islamic banks in Malaysia, Indonesia, Brunei, Turkey and Saudi Arabia, profitability through return on equity (ROE) was found significant towards economic growth of the 5 countries (Ledhem & Mekidiche, 2020). For Islamic banks to be viable, it is important to see such kind of significant contribution to economic growth of their domiciled countries.

There is wealth of empirical research connecting working capital management to financial performance. Some of such are Olaoye and Okunade (2020); Rahman and Ahmed (2021); Anton and Nucu (2021); Napompech (2012); Robert, Mark and Rabih (2012); Qazi, Seyd, Zaheer, and Nadeem (2011); Shrivastava and Kumar (2017). However, the bulk of these studies are on agriculture, industry, service, cement and tannery, consumer goods, petroleum and manufacturing sectors. Many of these studies have established a positive relationship between working capital management and financial performance. Yet their findings may not be generalized to banking because the sectors have different mix of the required current assets and liabilities. There are few studies on the effect of working capital on financial performance of banks, for instance, Yahaya and Bala (2015); Ofurum *et al.* (2021), nevertheless these studies are on conventional banks. The paucity of research on the operations of Islamic banks especially in Nigeria, has called for an investigation. This has brought to the fore the need to scrutinize the operations of Islamic banks in Nigeria. There is a rising demand and prospects for Islamic banking in Nigeria, it is essential for researchers to underpin the dynamics of its development.

One of the critical areas is working capital management, and that is the motivation for this study. The linkage between working capital management and financial performance of Islamic banks in Nigeria has not been examined. The reason is not far-fetched, Islamic banking is a recent phenomenon in Nigeria, and will need some times

to develop the literature. This study is conceived on the premise that working capital is essential in positioning Islamic banks to deliver its potentialities. Therefore, the main objective of the study is to examine the impact of working capital management on the financial performance of Jaiz bank PLC. The specific objectives of the study are:

1. To examine the relationship between day sales outstanding (*Murabaha* receivables) on the financial performance of Jaiz bank PLC.
2. To examine the relationship between day inventory outstanding (cash balances with other banks) on the financial performance of Jaiz bank PLC.
3. To examine the relationship between day payables outstanding (customer deposits) on the financial performance of Jaiz Bank PLC.

## 2. Literature Review

The most common assumption is that profit maximization is the main objective of business organizations and hence the yardstick of financial performance. Truly, businesses should be profitable to justify investors' confidence. However, more important than that, is maximizing the wealth of shareholders which means turning around the capital invested by the owners of the business. The challenge of corporate finance managers is the effective capital management to achieve short- and long-term goals of the business. A company is expected to effectively manage the short-term or working capital as a prelude for the general financial performance.

The ability of a company to generate profits in the past and present is measured using the Return on Assets (ROA) and Return on Equity (ROE). These ratios are obtained from the financial statement indicate how profitable a company is, and are used as proxies of financial performance (Shrivastava & Kumar, 2017). Conversely, working capital entails management of all current assets and current liabilities. This managerial accounting strategy aims to provide effective working capital, which is a proper interaction between current assets and current liabilities. This involves managing current assets and current liabilities in a way that, on one hand, eliminates the risk of being unable to meet short-term obligations, and on the other hand, avoid making excessive investments in current assets (Napompech, 2012; Robert, Mark & Rabih, 2012; Qazi, Seyd, Zaheer, & Nadeem, 2011). Working capital is regarded as the lifeblood and nerve of a business concern, inability to get it right may worsen financial performance.

Several theories were developed on this concept, such as cash conversion cycle theory, aggressive theory, Keynesian theory, trade-off theory etc. However, trade-off theory is adopted in this study as the underpinning theory because of its relevance in examining the trade-off between liquidity and profitability of firms. It is imperative to understand the trade-off model in financial performance. The model implies the interplay between the need for liquidity and profitability. While it is important to keep a reasonable

amount of liquidity to achieve efficiency and stability, this may be at the expense of profitability. This espouses the need for a proper interaction between current assets and current liabilities. This is an important goal of financial management; meeting short-term obligations, and avoiding excessive investments in current assets. The dilemma in this trade-off model is when firms express their optimal reason for holding cash by comparing the marginal cost and benefits of holding cash. Large investment in current assets under certainty would mean low Return on assets (ROA) of the firm, as excess investments in current assets will not fetch enough return. Conversely, the ultimate obligation of any firm is to maximize profit and increase productivity. At the same time, preserving liquidity of any firm is an important obligation too. The predicament is that increasing profits at the cost of liquidity can pose serious challenges to the firm (Makori & Jagongo, 2013). Therefore, one objective should not be fulfilled at the cost of the other since both are important. Managers must reconcile between insolvency or bankruptcy and long-term survival.

This idea of managing working capital and its impact on financial performance is not limited to banking. Certainly, long-term survival is hinged on short-term solvency. The following studies from other sectors are pointers to that fact. A study by Anton and Nucu (2021) examined this assertion with 719 Polish listed firms over the period of 2007–2016. The finding of the research was that working capital has a positive effect on the profitability of Polish firms to a break-even point (optimum level), though after that point, it starts to negatively affect firm's profitability. A study by Hoang-Lan et al. (2018) focused on Vietnam's three economic sectors— agriculture, industry, and service, between 2014 and 2016. They discovered that working capital management had a positive impact on the financial performance of the three economic sectors. A study by Rahman and Ahmed (2021) examined the impact of working capital management on profitability in listed cement and tannery industry in Bangladesh using collected data from Dhaka stock exchange over the period of 10 years (2008-2017). The study found that day sales outstanding shows significant negative impact on dependent variable (profitability of the firms).

In another study, Sulaiman *et al.* (2018) investigated the effect of Working Capital Management on the profitability of sixteen (16) listed Consumer Goods firms in Nigeria for a period of seven years (2010-2016). Current ratio, trade receivable period, trade payable period and inventory conversion period were used as proxies for working capital, while return on assets and return on equity proxied financial performance. The findings revealed that trade receivable period is positively and statistically significant at 1% on return on Assets, while current ratio, trade payable and inventory conversion period have insignificant effect on return on assets. Although trade receivable period had positive significant effect on financial performance, the

study concludes that working capital management variables of this study do not have positive effect on profitability. Agbaje Salami *et al.* (2019) examined the influence of working capital management on the financial returns of petroleum firms in Nigeria. Data related to the study's variables were obtained from the annual reports of 9 out of 14 petroleum firms listed on the Nigerian Exchange Group between 2010 and 2016 using panel regression model. The results show that the efficient working capital management pursued by these firms was thwarted by the reversal of the expectation of the average payment period. Specifically, the findings revealed that, cash- conversion- cycle and two of its components, average-collection-period and inventory-turnover- period, had significant negative impact on the measures of financial returns, return-on-asset and return-on-sales, while the average-payment-period significantly and negatively influenced the profitability against the expectation. Also, leverage and size negatively and positively influenced these firms' profitability respectively. Olaoye and Okunade, (2020) observed the link amid working capital management and profitability of quoted manufacturing firms in Nigeria. They discovered a significant influence of working capital management (ITID, CPP & ACP) on profitability of listed manufacturing firms in Nigeria. Although, creditors payment period shows a significant impact on profitability but inventory turnover days and account receivables period were insignificant. While some proxies of working capital in the studies above did not predict performance, it only signify the peculiarities of the diverse sectors. Agriculture, industry, service, cement and tannery, consumer goods, petroleum and manufacturing sectors naturally have different mix of the required current assets and liabilities, and further scrutiny is beyond the scope of this paper.

## **2.1 Working Capital and Financial Performance of Banks**

Money deposit banks are strategically placed in the modern society and affect all other stakeholders. This means if banks are allowed to fail, it may have dire consequences across the spectrum. This argument underscores the imperatives of this study to unearth the relevance of working capital to performance of banks. Needless to say, when banks survive in the short run, it gives them the impetus to maintain their going concern status. A study by Yahaya and Bala (2015) examined this assertion on Deposit Money Banks in Nigeria, for a period of six years, from 2007 to 2013. It revealed a strong positive relationship between current ratio and quick ratio and ROA, while cash ratio was found to be inversely but significantly related to ROA. Essentially it found that higher liquidity signifies more profitability. Similarly, Abdulnafea, Almasria and Alawaqleh (2022) used 16 Jordanian banks listed on the Amman stock exchange to see the effect of Working Capital Management on the Financial Performance. With a scope between 2017 and 2020, the study found a significant

relationship between WCM and FP. The researchers recommend that banks need to lengthen client credit terms, prolong the cash transfer cycle, and a more extended payment period to achieve a stable short-term solvency. Furthermore, Ofurum *et al.* (2021) examined the performance of deposit money banks in Nigeria from 2010 to 2021, and used return on asset as index of bank performance while cash conversion cycle, current asset and current liability represent working capital. It revealed a negative and insignificant relationship between cash conversion cycle and return on asset, current asset had positive and significant effect on return on asset. It also revealed that current liability dampened performance. Just like the previous studies, it concurs that working capital management can enhance the performance of deposit money banks. Yet the researchers recommend banks to increase their current asset by raising their liquid assets through prompt collection of borrowed funds. It is evident that banks should focus on optimizing working capital in order to achieve the desired financial performance.

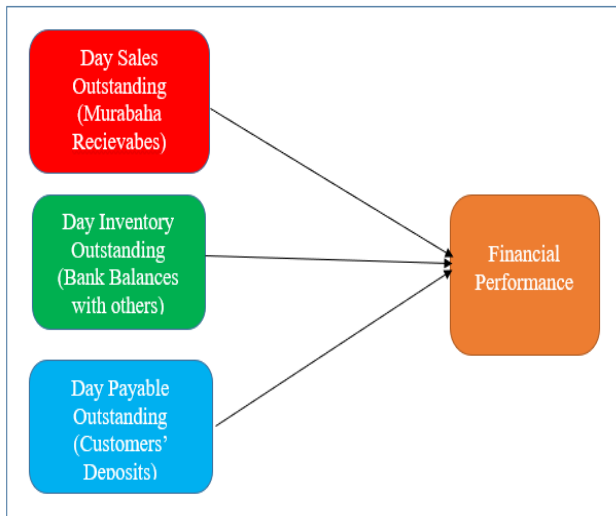


Figure 1: Conceptual Framework

Figure 1 show the hypothetical relationship between independent variable (Working capital management) and dependent variable (financial performance). However, the big question is, does the effect of working capital management affect all banks the same way? Promoters of Islamic banking argue that the business model of Islamic banks has higher efficiency and stability, while its critics maintained that Islamic and conventional banks differ only in form. It is noteworthy to find out whether such difference exists. A study by Majeed and Zainab (2021) did a comparative analysis of the financial performance of top-10 Islamic and conventional banks in Pakistan over the period 2008–2019. They sampled five full-fledged Islamic and top-five performing conventional banks offering Islamic windows. This intriguing study revealed that Islamic banks are better capitalized, less risky and have higher liquidity as compared to the Conventional banks.

However, the profits of Islamic banks were found to be lower than their conventional counterparts. This study is unique on different fronts; while it contradicts many established studies, it affirms the trade-off theory. This goes to answer the question of whether working capital management is the same across all banks. This may have led Tabash (2019) to unravel performance predictors for Islamic banks. The researcher used all full-fledge Islamic banks within a scope of 2009-2013, and had found a significant relationship between disclosure and financial performance, and that higher disclosure indicate higher operating performance, and can reduce cost of equity and increase share value.

Notwithstanding this result, it is important to know the predictors of financial performance of Islamic banks, and whether what works in conventional would as well work in Islamic banks. This can help the nascent Islamic banks in Nigeria to focus on what will increase shareholders value. This view underscores the worth of this study.

### 3. Methodology

This study used Ex-post factor research approach with a time series data that is historical in nature. The population of the study is Jaiz bank Plc since it is the only bank that offers comprehensive non-interest banking products for more than a decade, which is the main emphasis of the current study. Purposing sampling technique was used to source the data from the annual reports and accounts of Jaiz bank Plc over the period 2013- 2022. Specifically, statement of financial position and statement of comprehensive income portions of the annual reports were utilized. Where time series data between 2013 and 2022 of audited financial statements from Nigerian Exchange Group (NGX Group) were used. The beginning period 2013 was chosen because Jaiz bank Plc commenced operations on the 6th of January, 2012 and the annual report is only available from 2013. The end period 2022 is chosen because annual reports of banks in Nigeria are only available up to 2022 as at the time of carrying out this study. Additionally, profit after tax was divided by the total asset to calculate return on asset. Day sales outstanding was calculated using the average receivables divided by total revenue multiplied by the number of days in the year, day payables divided by total expenses, and day inventory divided by total revenue divided by the number of days in the year.

Table 1: Variables Measurement

Variable	Definition	Formula	Source
Dependent Variable: ROA	Return on assets	Measured by the net income to the average total assets	Lazaridis & Tryfonidis (2006), Ajao & Nkechinyere (2012)
Independent Variable: DSO	Day sales outstanding (Murabaha receivables)	Measured as the ratio of the net sales to the average debtors multiplied by no of days in a year	(Mohammed & Abosedo, 2019) and (Michasiki, 2006)
Independent Variable: DIO	Day Inventory Outstanding (cash balances with other banks)	It is measured as the ratio of the cost of goods sold to average inventory multiplied by the number of days in a year	Uramadu (2012), Napompech (2012),
Independent Variable: DPO	Day Payables Outstanding (customer deposits)	It is measured as the average account payables divided by cost of sales multiplied by the number of days in a year.	(Mohammed & Abosedo, 2019), (Korode, 2017) and

Source: Author's Compiling using EViews Version 12

Table 1 shows how previous researchers measured the variables in question and were adopted in this study.

The beginning period 2013 is chosen because Jaiz bank Plc commenced operations on the 6th of January, 2012 and the annual report is only available from 2013. The end period 2022 is chosen because annual reports of banks in Nigeria are only available up to 2022 as at the time of carrying out this study. Additionally, profit after tax was divided by the total asset to calculate return on asset. Day sales outstanding was calculated using the average receivables divided by total revenue multiplied by the number of days in the year, day payables divided by total expenses, and day inventory divided by total revenue divided by the number of days in the year. The model is adapted from Sulaiman et al., (2018)

$$ROA = f(DIO, DSO, DPO)$$

$$ROA_{it-1} = \alpha_{it-1} + \beta_1 DSO_{it-1} + \beta_2 DIO_{it-1} + \beta_3 DPO_{it-1} + e_{it-1} \quad (1)$$

Where:

ROA represents the company profitability/total assets,  $\alpha$ = the constant term, (DIO)= Days Inventory Outstanding, (DSO)=Days Sales Outstanding, (DPO)=Days Payable Outstanding,  $\beta_{1-4}$ = the Coefficient of the Function, e = error term.

represented by ROA. Heteroskedasticity and autocorrelation issues are addressed with the robust heteroskedasticity and autocorrelation consistent (HAC).

#### 4. Data Analysis and Discussion

Any valid data must satisfy certain statistical assumptions that are revealed through descriptive statistics. Essentially data has to be normally distributed, and skewness and kurtosis are used to measure that. Other tests that are necessary include correlation, heteroskedasticity, augmented dicker fuller test and finally, generalised least square was employed to test the developed hypotheses.

Table 2: Descriptive statistics

	ROA	DSO	DPO	DIO
Mean	0.008994	2.753686	11.03788	0.294675
Median	0.013516	2.805400	11.82487	0.275988
Maximum	0.018117	3.404947	15.91334	0.697722
Minimum	-0.021901	1.275337	4.880088	0.080143
Std. Dev.	0.011846	0.614885	3.847783	0.164714
Skewness	-0.938001	-0.351130	-0.261950	0.404114
Kurtosis	2.817030	1.469889	1.624647	1.829762
Jarque-Bera Probability	2.566270 0.28370	3.942825 0.139260	0.902527 0.636823	4.680905 0.096284
Sum	0.089940	27.53686	110.3788	2.946752
Sum Sq. Dev.	0.001263	3.402757	133.2489	0.244175
Observations	10	10	10	10

Source: Author's Compiling using EViews Version 12

Table 2 revealed the data used in the study with the performance (return on Asset) of Jaiz Bank under review having a mean of 0.008994 while the deviation from the mean (standard deviation) was 0.011846 This means that the performance of Jaiz banks was normally distributed because the standard deviation value was lesser than the mean value. Also, the day sales outstanding had a mean of 2.75 while the deviation from the mean (standard deviation) was 0.615. This means that day sales outstanding was normally distributed because the standard deviation value was lower than the mean value. The maximum day sales outstanding as of the period of this study were 3.405 which means that the day sales outstanding was not more than 3.405 while the minimum day sales outstanding 1.275. Equally, the day payables outstanding had a mean of 11.038 while the deviation from the mean (standard deviation) was 3.85. This means that day payables outstanding was normally distributed because the standard deviation value was lower than the mean value. The maximum day payables outstanding as of the period of this study were 15.91 which means that the day sales outstanding was not more than 15.91 while the minimum day sales outstanding 4.88. Equally, the day inventory outstanding had a mean of 0.295 while the deviation from the mean (standard deviation) was 0.165. This means that day inventory outstanding was normally distributed because the standard deviation value was lower than the mean value. The maximum day inventory outstanding as of the period of this study were .06977 which means that the day sales outstanding was not more than 0.6977 while the minimum day sales outstanding 0.080.

Table 3: Correlations among Variables Understudy

Correlation	ROA	DSO	DPO	DIO
ROA	1.000000			
DSO	-0.572263	1.000000		
DPO	0.573114	-0.329220	1.000000	
DIO	-0.859455	0.557561	-0.874648	1.000000

Source: author's compiling using EViews version 12

Table 2 shows the correlation among variables understudy, there is moderate negative correlation between return on asset and day sale outstanding of 0.572263, which means

when day sales outstanding is increased by 1day, financial performance will reduce by 0.57 and vice-versa. Conversely, day payables outstanding has moderate positive relationship of 0.573114. it means when customers deposit payment is delayed by a day, it will increase performance of Jaiz by 0.573114. lastly, there is high correlation between day inventory outstanding and financial performance of Jaiz bank of 0.859. this implies when Jaiz account balances with other banks is delayed by one more day, it will reduce financial performance by 0.859.

Table 4: Serial Correlation Test

Breusch-Godfrey Serial Correlation LM Test:

Null hypothesis: No serial correlation at up to 2 lags

F-statistic	0.731725	Prob. F(2,4)	0.5360
Obs*R-squared	2.678619	Prob. Chi-Square(2)	0.2620

Source: Author's Compiling using EVIEWS version 12

Table 4 shows there is no serial correlation in the data as it fails to reject the null hypothesis which says no serial correlation with a p-value of 0.536.

Table 5: Serial Correlation Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey

Null hypothesis: Homoskedasticity

F-statistic	1.154508	Prob. F(3,6)	0.4011
Obs*R-squared	3.659868	Prob. Chi-Square(3)	0.3006
Scaled explained SS	0.935878	Prob. Chi-Square(3)	0.8168

Source: Author's Compiling using EVIEWS version 12

Table 5 shows results of Breusch-pagan-Godfrey test which fails to reject the null hypothesis, thereby indicating no heteroskedascity in the data understudy.

Table 6: Serial Correlation Test

S/N	Variable	Difference	t-statistics	Prob
1	ROA	I(0)	-6.635298	0.0007
2	DIO	I(0)	-4.018916	0.0173
3	DPO	I(0)	3.367766	0.0470
4	DSO	I(0)	4.312426	0.0320

Source: Author's Compiling using EVIEWS version 12

Table 5 shows the stationary test where Augmented Dickey-fuller test was used and all the variables were differenced at level difference which pave way for application of generalised least square method.

Table 7: Generalised Least Square

Dependent Variable: ROA  
 Method: Least Squares  
 Date: 08/10/24 Time: 06:55  
 Sample: 2013 2022  
 Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DSO	0.000905	0.003634	0.249182	0.8115
DPO	-0.002438	0.000994	-2.451178	0.0497
DIO	-0.113501	0.026424	-4.295359	0.0051
C	0.066852	0.016009	4.175913	0.0058
R-squared	0.875701	Mean dependent var		0.008994
Adjusted R-squared	0.813552	S.D. dependent var		0.011846
S.E. of regression	0.005115	Akaike info criterion		-7.424061
Sum squared resid	0.000157	Schwarz criterion		-7.303027
Log likelihood	41.12031	Hannan-Quinn criter.		-7.556835
F-statistic	14.09028	Durbin-Watson stat		1.651636
Prob(F-statistic)	0.004000			

Source: Author's Compiling using EVIEWS version 12

Hypothesis one says there is no significant impact of DSO (*Murabaha* receivables) on the financial performance of Jaiz bank. The analysis fails to reject the null as the P-value of 0.81 is greater than the threshold of 0.05. Hypothesis two says there is no significant impact of DPO (customers' deposits) on the financial performance of Jaiz bank. The result rejects the hypothesis with a significant value of 0.0497, the coefficient of -0.002438 indicates that if customers deposits are delayed by one day, Jaiz bank financial performance will reduce financial performance by 0.002438. Hypothesis three says there is no significant impact of Jaiz bank balances with other bank on the financial performance. The result rejects the null hypothesis as p-value of 0.0058 is less than 0.05. the coefficient of -0.1135 shows when Jaiz bank balance with other banks is delayed by one more day, financial performance will increase by 0.1135. As observed in regression results Table 2, *Murabaha* receivables is positively and insignificantly related to financial performance as measured by return on assets. The coefficient of *Murabaha* receivables (DSO) of 0.000905 signifies that 1% increase in *Murabaha* receivables will translate into 0.000905 increase in financial performance of Jaiz bank. This result is supported by a previous study Olaoye and Okunade (2020). The implication of this is that, yes *Murabaha* is good but it does not dramatically improve financial performance. This finding adds to the continuous debate that Islamic banks should move from *Murabaha* products that are less risky and more or less fixed income to profit sharing products such as *mudharaba* and *musharaka*. It also reveals that customers' deposit (DPO) has significant negative impact on financial performance of Jaiz Bank with a coefficient of

-0.002438. Hence, one percent increase in delay payment to customers of Jaiz bank will increase the bank financial performance by 0.002438. The finding is in conformity with Agbaje Salami et al. (2019). This certainly is a good working capital management strategy. It will increase not only bank liquidity, but also serve as an opportunity for investing in liquid assets such as Sukuk or other short-term marketable securities. It is also necessary to entice the *mudharaba* account customers if the funds are invested in high yielding outlets. That will motivate customer deposits, and hence improve the bank's financial performance, and consequently increase shareholders' value. This yet again confirms the assertion that, Islamic banks should engage in higher risk and profit sharing to enable them to flourish. It will give them the opportunity to have unlimited funds at their disposal, if at all the funds will be managed very well. Similarly, Jaiz bank's balances with other banks has significant impact on financial performance. The coefficient of 0.1135 which reveals that when other bank balance is increased by 1%, financial performance will reduce by 0.1135. This finding is in conformity with Agbaje Salami et al. (2019). Although this is not unconnected with the fact that some balances are with Central Bank of Nigeria, which yield no interest as the bank does not deal with interest. Other balances may be with foreign banks to support international customers and/or partners. Yet still, it is imperative to think of the opportunity cost of keeping such huge balances elsewhere.

## 5. Discussion of Findings

As observed in regression results table 7, *Murabaha* receivables is positively and insignificantly related to financial performance as measured by return on asset. the coefficient of *Murabaha* receivables (DSO) of 0.000905 signifies that 1% increase in *Murabaha* receivables will translate into 0.000905 increase in financial performance of Jaiz Bank (Olaoye & Okunade, 2020),

It also reveals that customers' deposit (DPO) has significant negative impact on financial performance of Jaiz Bank with a coefficient of -0.002438 one percent increase in delay payment to customers of Jaiz (Day payables outstanding) with Jaiz bank will increase the bank financial performance by 0.002438. this will increase bank liquidity and change of investing in liquid assets increases. This indicates that increase in customers access their deposit will increase the bank's chance to improve its financial performance and consequently its wealth portfolio. The finding is in conformity with Agbaje Salami et al., (2019)

Similarly, Jaiz bank's Balance with other banks has significant impact on financial performance. The coefficient of 0.1135 which reveals when other bank balance is increase by 1%, financial performance will reduce by 0.1135. this is unconnected with the fact, that some balances are with CBN which yield no interest as the bank does not deal with interest, other banks balance too has

no interest as the bank is interest free. The finding is in conformity with Agbaje Salami et al., (2019)

## 6. Conclusion and Recommendations

This study examined the impact of working capital management on the financial performance of Jaiz bank Plc from 2013- 2022, using ordinary least square method. Findings indicate that customers' deposit days it stays in the bank (day payables outstanding) have negative and significant effect on the financial performance, whereas *Murabaha* receivables has positive and insignificant effect on the financial performance represented by the return on asset. The study concludes that working capital management has significant impact on the financial performance of Jaiz bank Plc. The paper recommends that Jaiz bank Plc should consider more higher risk Islamic banking products such as *mudharaba* and *musharaka* because they bring more benefits in developing productive capacity of the society, a central objective of Islamic finance. Furthermore, this study has found that for Jaiz bank Plc to have a dramatic improvement in performance, they need to go beyond the less risky *Murabaha*. Similarly, the bank needs to keep *mudharaba* customer deposits through viable investments. Lastly, the bank needs to reduce the number of days their cash stay in other banks as this hurt its financial performance.

### 6.1 Recommendation for Further Studies

This study used three measures of working capital management and the explained variability in financial performance by 0.8136 meaning 81.36% of variability in financial performance of Jaiz Bank are explained by these three measures (day sales outstanding, day inventory outstanding and day payables outstanding) they are very strong in measuring financial performance yet there is the remaining 18.64 variability unexplained by this research in which other may pick up from there. The study is also on Jaiz Bank other banks too may be picked to enriched the concept. Finally, there are many proxies of financial performance, this recharge used return on asset, others may pick return on equity, return on investment, return on capital employed etc as proxies of financial performance.

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