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Jamiu Adeniyi Akindele, Asri Marsidi, Shaharudin Jakpar, Lateef Yunusa, Adamu Babale

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## A Theoretical Assessment on the Relationship between Working Capital Investment and Firm's Performance

Jamiu Adeniyi Akindede, Asri Marsidi, Shaharudin Jakpar  
Universiti Malaysia Sarawak Faculty of Economics and Business 94300 Kota Samarahan  
Sarawak Malaysia  
Email: jamiuakins307@gmail.com, maasri@unimas.my, jshaharudin@unimas.my

Lateef Yunusa  
Department of Banking and Finance, Olabisi Onabanjo University, Ago-Iwoye, Ogun State  
Nigeria  
Email: yuusalateef@gmail.com

Adamu Babale  
College of Business and Management Studies Jigawa State Polytechnic, Dutse Nigeria  
Email: babaleadamu@yahoo.com

### Abstract

The concept of financial constraint have a great influence on company decision and capital market entrance as shareholders and directors recognised its negative implication on firm performance. This paper is the first to conceptualize the theoretical influence of financial constraints (FC) on working capital investment (WCI) and corporate performance through firm internal resources and managerial competency by employing a qualitative approach from a theoretical disposition which has been meagerly demonstrated in the literature. Specifically, bearing in mind the rising unpredictability and issues in the credit and capital markets that has been noticed for numbers of years and the similar intensification in regulatory capital about acquiring external financing, the attention of the firm's gradually shifted to its internal liquidity generated from enterprise operation on the basis of working capital (WC). This study argues that business internal resources through managerial skill and internal capital can to enhance WCI in a financially constrained situation thereby reduces the agency cost and asymmetric information and increases performance. Hence, we conclude that internal funds is suitable to finance WCI in a constrained situation for managers to avoid overinvest or underinvest in working capital asset by controlling for financial constraints. Further review are expected to determine WCI-performance relationship using some vital accounting ratios largely generated from annual reports and accounts.

**Keywords:** Working Capital, Working Capital Investment, Financial Constraints, Performance, Firm's Value.