Abstract

**Purpose:** Adopting the Expectancy Confirmation Theory as its theoretical framework, this paper argued that working capital management (WCM) practices could be repurposed by firms in a business to business context in order to develop viable strategies to engender loyalty among its customers thus improving its chances at achieving long-term organizational success.

**Design/methodology/approach:** The WCM-CL Model was developed to guide businesses on how to utilize inventory management practices, accounts receivable policies and accounts payable policies to help establish a loyal customer base. According to variable inventory management methods, accounts receivable accounts payable, strong company reputation and generate customer loyalty.

**Findings:** Specifically, the Model posited that a business which always had inventory on hand and rewarded loyal customers with generous credit terms would incentivize customers to become repeat purchasers of its products and services. Additionally, the Model also encouraged companies to pay their suppliers as quickly as possible so as to develop a strong reputation of being a diligent and reliable customer among businesses within its supply chain network. The Model further argued that this strong reputation would attract other businesses in the network to become repeat customers due to the confidence they would have that the business would treat them fairly.

**Originality/value:** This paper is original

**Paper type:** Research paper

**Keywords:** Working capital management, Customer loyalty, Business-to-business, Expectancy theory, WCM-CL Model

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I. INTRODUCTION

Management is about achieving balance by assembling scarce resources and allocating them effectively and efficiently to various aspects of an organization in order to achieve short-term and long-term objectives (Elacqua et al., 2021). The reality though is that regardless of how revolutionary these organizational objectives are in theory, they can never be actualized without the availability of the requisite financial resources, particularly as it relates to the day-to-day operations of an organization which needs to be executed for any long-term objectives to be actualized (Wanyoike et al., 2021). This thus makes the issue of working capital management (WCM), the ability to ensure that enough cash is always available to meet short-term obligations, a critical management priority for all organizations (Wahab & Khan, 2021). The importance of WCM is even more heightened for businesses particularly due to intensified competition in the marketplace brought about by increasing levels of globalization, and more recently by the COVID-19 global pandemic that disrupted global supply chains and virtually every other aspect of business operations (Mutwiri, 2021).

A systematic review of extant scholarship on the relationship between WCM and performance over the last decade (2012-2021) revealed that scholars have focused exclusively on the impact of WCM on the financial performances of organization, with virtually all the articles reviewed indicating that WCM has a positive impact on the financial performance (Akgün & Memiş Karataş, 2020; LeFebvre & Fan, 2020; Sawarni et al., 2021;
Shahid et al., 2020; Tingbani et al., 2020). The most important research gap revealed by the systematic review was the fact that none of the studies explored the possibility that WCM could impact non-financial performance of organizations. This is particularly significant because financial performance represents only one half of how well an organization is performing, with non-financial performance metrics representing the other half (Faturohman & Nugraha, 2021).

It is against this backdrop that this paper sought to develop a conceptual model based on conceptual and theoretical arguments as to why WCM could affect an organization’s non-financial performance, with a specific focus on customer loyalty in a business-to-business (B2B) context. Customer loyalty was selected due to its importance for the long-term sustainability of a business considering that loyal customers (those who make repeat purchases) spend almost 70% more than new customers and typically represent 80% of a business’ revenue (Stewart, 2019). The B2B context was selected because the concept of customer loyalty in this context is relatively under-researched when compared to the business to consumer (B2C) context (Insight, 2021).

The rest of the paper is organized as follows: First the theory underpinning this paper’s arguments is presented. This is followed by conceptual arguments justifying why WCM is expected to affect customer loyalty in a B2B context leading to the development of a conceptual model providing a pictorial presentation of these arguments. A discussion of the practical implications of the model concludes the paper.

A. Expectation Confirmation Theory (ECT)

ECT was first postulated in 1977 by American psychologist, Richard Oliver (Falco & Shaheed, 2021). From a B2B context, this theory can be used to explain what determines a business’ level of satisfaction and subsequent loyalty after purchasing a product or using a service from another business in the supply network (Kivijärvi & Virta, 2021). According to the theory, customer satisfaction is a function of four constructs: i) expectations, ii) perceived performance, iii) disconfirmation of beliefs and iv) satisfaction (Kivijärvi & Virta, 2021). Expectations refer to the attributes that a business expects from a certain product or service prior to purchase. Perceived performance refers to the business’ evaluation of the actual performance of the product or service after purchase (Kivijärvi & Virta, 2021). Disconfirmation of beliefs refers to the extent to which the business’ perceived performance of the product or service compares to initial expectations; if the perceived performance exceeds the initial expectations, then the disconfirmation is positive; but if the perceived performance falls below initial expectations, then the disconfirmation is negative (Kivijärvi & Virta, 2021). Finally, satisfaction refers to the extent a business is pleased with the product or satisfaction after purchase (Kivijärvi & Virta, 2021). Regular experiences of satisfaction with product or service purchase eventually translates into strong customer loyalty to the selected supplier of the product or service (Woo et al., 2021). Figure 1 provides a pictorial representation of the postulates of the ECT.

![Expectancy Confirmation Theory](image)

**Figure 1: Expectancy Confirmation Theory**

*Source: Islam et al. (2017)*

B. Working Capital Management – Customer Loyalty Model (WCM-CL Model)

The major premise of this paper is that businesses should expand their thinking regarding the primary objective of developing effective working capital management practices as only a means of ensuring sustainable...
financial performance but also as a very important strategy for engendering loyalty among its customers, with particular emphasis on a B2B context. This section of the paper presents conceptual arguments to support this premise in line with the precepts of the ECT.

WCM involves paying close attention to three parts of the business: inventory, accounts receivable and accounts payable. As it relates to inventory, management has to strike a balance between minimizing the costs of managing inventory and adversely affecting sales because inventory runs out due to high demand (Sensini & Vazquez, 2021). The ability of a business to ensure optimal inventory availability can have a significant impact on customer loyalty in the B2B context (Hamsa, 2021). Businesses rely on other businesses in their supply chain for critical inventory needed to ensure that smooth operations are maintained (Nuruzzaman & Weber, 2021). Having a reliable supplier who has the inventory needed at all times will encourage that customer to become loyal to that supplier. On the other hand, if a supplier is always running out of needed inventory in a bid to reduce inventory management costs, this will initially lead to customer dissatisfaction, with repeat occurrences leading the business to find a more reliable supplier. Inventory management can thus be a tool for a business to build strong loyalty among its customers or it could lead to a loss of these customers to a competitor who these customers perceive to be more reliable in terms of inventory availability.

Accounts receivable refers to the amount of money that is owed to a business by its customers (Frydlinger et al., 2021). The size of a business’ accounts receivable is dependent on its credit policy; a business that only offers its customers a cash and carry policy will have a zero balance as it relates to accounts receivable. This business will thus not have any cash tied up due to customers not paying their debts on time. However, this rigid stance might turn away potential customers who rely on some kind of a credit policy as an incentive to patronize a business. On the other hand, a business with an extremely generous credit policy is likely to have a very large accounts receivable balance, with the likely consequence of facing severe cash scarcity if customers do not pay their debts in a timely manner. The task of the manager is to find the optimal balance between these two extremes.

As per the precepts of the ECT, customers can become loyal to a business when they feel that they are rewarded for being regular customers. A business can thus use its credit policy as a means of encouraging customers to become repeat purchasers. The following scenario will illustrate this strategy: A business can allow first-time customers to purchase goods on credit up to N100,000 to be paid in a month. Customers who successfully pay their debt within the stipulated period can now be allowed a higher credit limit of N150,000. The credit limit continually increases for loyal customers who continually pay their debts on time. Customers who do not pay their debts on time are not afforded this credit privilege. A business can thus use its credit policy as a loyalty rewards programme. Empirical evidence has shown that loyalty programmes are effective in encouraging repeat customer purchases (Dogan & Erdogan, 2020).

A business’ accounts payable refers to the total amount of short-term debt owed to its suppliers (Dubey et al., 2020). The conventional wisdom when managing accounts payable is for a business to delay paying its debt as long as possible without jeopardising its relationship with their suppliers (Rey-Ares et al., 2021). This enables the business to have enough cash to carry out some other activities and makes sense if the business’ singular WCM motivation is to ensure its financial performance (Rey-Ares et al., 2021). However, this paper suggests that if a business decides to use WCM as a strategy to improve customer loyalty, then it should endeavour to pay its debts to suppliers as soon as possible rather than delaying its payment. In a B2B context where the business and its customers are part of a closely knit supply chain, paying debts to suppliers in a timely manner leads to the business developing a very strong and positive reputation within the network. This reputation should lead other businesses within the network to be more willing to continually patronize the business. Previous studies have found that company reputation is a significant determinant of customer loyalty (Khan et al., 2020; Lai, 2019; Najmul Islam et al., 2017).

The conceptual arguments made in the preceding paragraphs positing that the three aspects of WCM can be used to by a business to improve customer loyalty in a B2B context are represented by Figure 2 in a Model dubbed “Working Capital Management – Customer Loyalty Model” or the WCM-CL Model.
II. CONCLUSION

There is a famous saying that ‘the Customer is King’ which implies that businesses must pursue all avenues to ensure that their customers are not only satisfied but actually become loyal customers through repeat purchases. In fact loyal customers can even become word-of-mouth advocates and endorsers of a business which could translate into even more new customers. This management objective is equally important in a B2B or B2C context.

Adopting the ECT as its theoretical framework, this paper argued that WCM practices could be repurposed by businesses in a B2B context in order to develop viable strategies to engender loyalty among its customers thus improving its chances at achieving long-term organizational success. The WCM-CL Model was developed to guide businesses on how to utilize inventory management practices, accounts receivable policies and accounts payable policies to help establish a loyal customer base. Specifically, the Model posited that a business which always had inventory on hand and rewarded loyal customers with generous credit terms would incentivize customers to become repeat-purchasers of its products and services. Additionally, the Model also encouraged companies to pay their suppliers as quickly as possible so as to develop a strong reputation of being a diligent and reliable customer among businesses within its supply chain network. The Model further argued that this strong reputation would attract other businesses in the network to become repeat customers due to the confidence they would have that the business would treat them fairly.

The WCM-CL Model deviates significantly from the traditional scholarly focus on establishing the relationship between WCM and financial performance. It provides an alternate focus on how efficient and effective WCM could enhance the non-financial performance of a business in a B2B context. The arguments proposed in this paper remain conceptual and thus it is recommended that future studies empirically test the validity of the proposition that WCM can lead to customer loyalty.
REFERENCES


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