



Assessing the Influence of Working Capital Management on Profitability of Listed Food and Beverages Companies in Nigeria

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ABSTRACT

This study accessed the influence of Working Capital Management on profitability of listed food and beverages companies in Nigeria. To achieve this, the study focused on extent to which working capital management variables influence profitability of food and beverages firms. The population of the study comprises all sixteen (16) Food and Beverages firms quoted on the Nigeria Stock Exchange. Random sampling technique was used to select the fourteen firms (14) out of the sixteen (16) firms in the Nigerian Stock Exchange. Secondary source of data was employed for this research, obtained from financial report of the sampled companies from 2013-2018. The data collected were analyzed quantitatively using Panel Regression analysis. Results revealed that the p-value of the t-statistics computed for the variable of 0.0000 was less than the critical value of 5% with significance t-statistics value of 8.89 showing that working capital management exerted a substantial significant effect on profitability of the selected firms. The study recommended that firms should continue to manage their working capital effectively. This is because doing so may increase profitability of these firms. Also, there is need for the organization management to continue to deploy the right expertise in managing and sufficiently protecting their working capital.

Keywords: *Working Capital, Working Capital Management, Profitability, Nigeria Stock Exchange, Food & Beverages Companies*

1 Introduction

Working capital is also known as net current asset, is the difference between a company's current assets, such as cash, accounts receivable (customers' bills receivable) and inventories of raw materials, prepayment, work in progress and finished goods, and its current liabilities, such as accounts payable, dividends payable, notes payable, short term obligations (Kenton, 2019). Working capital is a measure of a company's liquidity, operational efficiency and its short-term financial health. If a company has substantial working capital, then it should have the potential to invest and grow. If a company's current assets do not exceed its current liabilities, then it may have trouble growing or paying back creditors, or even go bankrupt.

Working capital is an important tool used in any business setting. It is as relevant as financing non-current assets in the sense that the management has effects on the returns and risks of an organization. Khan and Jain (2005) state that current assets are those assets which are converted into cash within a short period of time and the cash received is again invested into assets, hence it is constantly revolving or circulating. Working capital according to Guthmann (2008) is the life span and nerve centre of any business entity.

Ojeani (2014) described working capital management as company managerial accounting strategy designed to monitor and utilize the two components of working capital which are current assets and current liabilities to ensure the efficient operation of the company. This is very important in order to promote a satisfactory profitability and thus achieved the goals of the business which is the maximization of shareholders wealth. As suggested by Ojeani (2014) that optimal efficient working capital is usually achieved through the management of inventory, receivable, payable, cash conversion cycle and the operating cycle as a whole. In essence, working capital management is necessary owing to its direct impact on the profitability and liquidity of a corporate entity.

Working capital management is important for creating wealth for shareholders (Amarjit, Nahum & Mathur, 2010). Enyi (2011) is of the view that a business is as strong as its unencumbered capital, as liquid, as its working capital volume, and as dynamic and viable as its managerial decisions. Working capital is the centre of existence of any business. In effect, without working capital, business cannot operate successfully (NorEdi & Noriza, 2010).

Performance evaluation of a company is usually related to how well a company can use its assets, share-holder equity and liability, revenue and expenses (Nazir & Afza, 2007). Furthermore, according to Winnie and Ondiek, (2014), performance is a subjective measure of how well a firm can use current assets from its primary mode of business and generate revenues.

Nkwankwo and Osho (2010) posit that a firm that manages its working capital inefficiently has every possibility that a lot of financial problems will fall on the organization. Such mishap may range from inability to expand, reduction in value of the company as well as its shares; inability of the management to cope with organizational technical improvement and financial losses, liquidity, susceptibility to liquidation and insolvency. Little no wonder while many businesses failed in their early years of establishment.

Padachi (2006) identifies internal and external factors as major determinants of success or failure of any firm. According to him, external factors include: availability of attractive financing, economic conditions, competition, government regulations, technology and environmental factors. On the other hand, internal factors include: managerial skills, workforce, accounting systems and financial management practices. As identified above, topmost in the list of the problems facing Nigerian firms especially food and beverages firms are: poor management of working capital and unfriendly operating environment. A large number of business failures in the past were attributed to the inability of financial managers to properly plan and control the working capital of their respective firms (Keith 1973).

Inefficient working capital management in the face of economic and political crises in Nigerian businesses today have led to loss of profit, owing to high bad debts, over/under stocking; liquidity problem, inability to expand, financial losses, vulnerability to liquidation and insolvency (Egbide, 2009; Nwankwo & Osho, 2010). Working capital is as inevitable in business as blood is in human body (Umara, Sabeen, & Qaisar, 2009). One of the major objectives of working capital management is to ensure that corporate entities have enough regular and consistent cash flow to fund their activities. Efficient working capital management could enable firms in sustaining growth which in turn leads to strong liquidity and profitability for ensuring effective and efficient customer services.

Statement of the Problem.

Many researchers in the field of finance have worked on working capital management using different variables to measure its efficiency and effectiveness particularly in relation to profitability. Despite all the research work carried out on working capital, problems that have been responsible for most corporate failure were traced to inadequate working capital. This study remains germane by exploring the determinants of working capital management in the food and beverages firm in Nigeria. Further, the global economic meltdown has affected the profitability of many listed firms on the Nigerian Stock Exchange. Many foods and beverages firms are merely struggling to survive in the Nigerian capital market. The unfriendly operating environment, in which many firms have found themselves, is really hindering their profit making efforts. The importance of working capital management

in a business enterprise cannot be underplayed. Management of working capital is central to the growth and survival of any business. Studies like Stephen (2012) showed that most business organizations do not hold the right amounts of inventories, receivables and cash as a result of which the firms are unable to meet their maturing short term obligation. The effect of this on the profitability of firms is worthy of this study.

Nigeria differs from developed and other developing countries in terms of capital markets, economy and infrastructural development, this limited evidence in the context of Nigeria along with the importance of working capital management on profitability of food and beverages firm and calls for further research on the effects of working capital management on profitability of food and beverages firms in Nigeria. In addition, this research will use only food and beverage firm unlike previous studies like Falope and Ajilore (2009) which included together purely manufacturing firms and service rendering firms (e.g. Hospitals, aviation firms, trading companies) without considering the fact that working capital management requires practices across nations. Researchers have studied working capital management in many different ways. (Deloof, 2003; Lazaridis & Tryfonidis, 2006; Falope & Ajilore, 2009; Raheman & Nasr, 2007) used all the firms in a geographical area but this research has a view of only Food and Beverages firms listed on the Nigeria Stock Exchange . This study will reduce the knowledge gap by contributing to existing literature.

Objectives of the Study

The objective of the study is to assess the extent to which working capital management variables influence profitability of food and beverages firms.

Scope of the study

The study assessed working capital management and profitability of listed food and beverages firm in Nigeria. The study was limited to fourteen (14) foods and beverages firm on the Nigeria Stock Exchange that have been in operation for the more than five (5) years and has consistent data for the period of 2013 to 2018.

2 Literature Review

Working capital is the amount of cash for day-to- day transaction of a business. It is a financial metric which represent operating liquidity available to a business organization or other entity including governmental within a given period of time. There are two types of working capital, the Gross working capital and the Net working capital. Gross working capital refers to the firm's total investment in current assets while the Net working capital is the difference between current assets and current liabilities of a firm (Pandey, 2003). The working capital of a firm is a combination of its short term assets

and liabilities. Current assets of a firm are made up of account receivable, trade credit and consumer credit, inventory, raw material, work in progress and finished goods, cash and all receipt falling due within a year. Current liabilities consists of account payable for purchases, overdrafts, loan repayment falling due within a year and other payment to government falling due within a year.

In very simple words, working capital may be defined as capital invested in current assets (Kurawa, 2009). Current assets are those assets which can be converted into cash within a short period of time. Hence, working capital is also known as circulating or floating capital. Akinsulere (2008) defines working capital as the amount invested in assets that are expected to be realized within a year's trading. It is not a permanent investment but an investment which is continuous in nature and can be turned over severally during a year. Alipour (2011) views working capital as the amount of capital which is readily available to an organization. That is, the difference between resources in cash or readily convertible to cash (current assets) and the organizational commitment for which cash will soon be required current liabilities. Kurawa (2009) posits that working capital provides a measure of firm's liquidity or its ability to meet its short-term obligations as they become due.

Adeniyi (2008) describes working capital as the capital available for the day-to-day operations of an organization represented by its current assets. According to Kantudu (2009) working capital can be referred to as circulating assets which consist of stocks, accounts payable and receivable, cash and short-term securities. The stocks acquired through purchases create accounts payable. The finished goods in turn are sold out and create accounts receivable. The accounts receivable are converted into cash which is used to settle the accounts payable. To Ojeani (2014), working capital is the excess of current assets over current liabilities. It is therefore concerned with the availability of fund to run a business. In the words of Khan and Jain (2005), they see working capital as the funds locked up in materials, work-in-progress, finished goods, receivable, and cash equivalent. With this definition, it can be seen that working capital is that part of total assets which is easily reverted to cash within a short term.

It is generally believed and held that working capital is all about current assets/liability. For instance, Khan and Jain (2005) hold that working capital is divided into two: Gross and Net. Gross working capital refers to the amount of funds invested in current assets that are employed in the business process while Net working capital is the difference between current assets and current liabilities. Furthermore, according to Pass and Pike (1984) working capital is the equilibrium between the income-generating and resource-purchasing activities of a company. That is the difference between current assets and current liabilities. They also say that gross working capital (i.e. total current assets) refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year or

operating cycle. Therefore, gross working capital, to them, is the total current assets; while net working capital as the difference between current assets and current liabilities

Components of Working Capital Management

Working capital management deals with the determination of optimum balance of each component of working capital to ensure that firms have sufficient funds to satisfy their short term obligations and upcoming operational expenses. Thus, the basic components of working capital management include inventory management, account receivable management, cash management and accounts payable management (Kantudu, 2009).

Inventory management

Inventory management is the systematic control of stock through establishment of inventory control models, physical control as well as accurate and up-to-date records of stock (Uremadu, Egbide & Enyi, 2012). Similarly, Kurawa (2009) argues that inventories must be well managed to ensure continuous supply of raw-materials to avoid interruptions in production, maintaining sufficient stock of raw materials in period of scarcity and anticipated price changes, minimize carrying costs and time and keep investment in inventories at optimal level. Inventory turnover in days is another important component of working capital management which is also called inventory conversion period (Raheman, Qayyum & Afza, 2011).

Account Receivable Management

Account receivables arise when a company sells products or services on credit and does not collect cash immediately. Receivables management involves decisions relating to the investment in business debtors. In credit selling, it is certain that the firm have to pay the cost of getting money from debtors and to take some risk of loss due to bad debts. Corrective action is often needed and the only way to know whether the situation is getting out of hand is to set up and then follow a good receivable control system (Kurawa, 2009). Van Horne (1995) states that since the purpose of offering credit are to maximize the profitability, the cost of debt collection should not be allowed to exceed the amount recovered. Uremadu, Egbide & Enyi (2012) assert that all efforts the financial manager makes in setting credit standard, credit terms and credit collection periods should be ratio towards establishing an optimal credit policy for the firm.

Cash Management

Cash is the ultimate output to be realized by selling of goods and services. It is the money that firms can readily payout without any restriction (Pandey, 2005). Cash management, which is part of treasury management is concerned

with enhancing the amount of cash available, maximizing the interest earned by spare funds not required immediately and reducing losses caused by delays in the transmission of funds (Uyar, 2009).

Cash Conversion Cycle: The cash conversion cycle is used in measuring cash management and it represents the interaction between the components of working capital and the flow of cash within a company (Wang, 2002). Cash conversion cycle can also be used to determine the amount of cash needed for any sales level; it is the period of time between the outlay of cash on raw materials and inflow of cash from the sales of finished goods and represents the number of days of operation for which financing is needed (Ojeani, 2014).

Accounts Payable Management

Accounts payable arise when a company buys product or services on credit but do not pay cash immediately. It constitutes a short-term source of finance along with accrued expenses and deferred income. Trade credits could take the form of bills payable or promissory notes (Akinsulere, 2011). Trade credit is a spontaneous source of finance and is relatively easy to obtain compared to other negotiated sources of finance (Pandy, 2005).

Alipour (2011) put it this way, the firm must balance the advantages of trade credit against the cost of foregoing a possible cash discount, any possible late payment penalties, the opportunity cost associated with any possible deterioration in credit reputation and the possible increase in the selling price the seller imposes on the buyer.

Inventory Turnover in Days (ITID)

One of the most important parts of a business is its inventory. Businesses need to be able to keep track of how long it takes to convert inventory into cash because it affects performance (Mekonnen, 2011). Inventory turnover is used by firms as a way to understand how they are performing overtime and relative to other firms in the same industry and once they know how they compare to other industries and how long products take to sell, changes can be made to improve efficiency and profitability (Afeef, 2011).

Average Collection Period (ACP)

According to Mathuva (2010), average collection period is approximately the time that business takes to received payments owed by it. It is an independent variable that is used as a proxy for collection policy. According to Brigham and Houston (2003), it is the average numbers of days it takes a company to collect its accounts receivable. In other words, this financial ratio is the average number of days required to convert receivables into cash. According to Mekonnen (2011), average collection period is a measurement of the average number of days that it takes a business to collect payments from sales that

were made on credit.

Average Payment Period (APP)

Average payment period refers to the time taken to pay firm's creditors. According to Deloof (2003), deferring payments to suppliers allows a firm to assess the quality of the products bought and also the firm can reverse some cash which was to be used to pay the suppliers and use it in other operations which will maximize profits. On the other hand, Padachi (2006) found that delaying payments to suppliers can be very costly especially if there is a trade discount for early payment and also can ruin the credit reputation for the firm in the long run. According to Afeef (2011), average payment period is the short term liquidity measures that explain the rate at which company paid off to its suppliers. It is an independent variable and it is used as a payment of proxy policy. It is calculated by dividing account payable by purchase and multiplying with 365. Also, Afza and Nazir (2008) the average collection period is the average number of days between the date that a credit sale is made, and the date that the money is received from the customer. The average collection period is also referred to as the days' sales in accounts receivable.

Cash Conversion Cycle Theory

The cash conversion cycle theory approach was developed by Richards and Laughlin (1980). In their work, Richards and Laughlin saw the need to have a critical look at working capital management and its individual components. They felt, that, although a substantial portion of financial manager's time is spent on decision relating short-term assets and liabilities, little attention has been given by most of the literature and researchers in this direction. Accordingly, they describe the receivables, inventories and payables as the constituents of the cash conversion cycle model. The theory of the cash conversion cycle centers on explaining a cycle that begins from the payment for the purchase of raw materials, through to its transformation and the emergence of new product, to the collection of receivables from the buyers and possible debtors of the interaction as a result of the stock sale.

Empirical Review

Akoto, Awunyo-vitor and Angmor (2013) analyzed the relationship between working capital management practices and profitability of listed manufacturing firms in Ghana. The study used data collected from annual report of all the 13 listed manufacturing firms in Ghana covering the period from 2005-2009. Using panel data methodology and regression analysis, the study found significant negative relationship between profitability and Account Receivable Days, however, the firms' Cash Conversion Cycle, Current Assets Ratio, Size, and Current Assets Turnover significantly and positively influence profitability.

Omesa, Maniagi, and Makori (2013) examined the relationship between working capital management and corporate performance of manufacturing firms listed on the Nairobi securities exchange. A sample of 20 companies whose data for 5 years from 2007-2011 were selected. For analysis, principal components analysis (PCA) was used due to its simplicity and its capacity of extracting relevant information from confusing data sets. From the result using PAC and multiple regressions, working capital proxies, Cash Conversion Cycle (CCC), Average Collection Period (ACP) and Control Variable Current Liabilities (CLTA), Net Working Capital Turnover Ratio (NSCA) and Fixed Financial Ratio (FATA) were significant at 95% confidence (p Values are < 0.05) to performance as measured by ROE. Further, ACP was found to be negatively related to ROE while CCC, CLATA, NSCA and FATA.

Dauda Ibrahim & Adagye (2013) examines the effect of working capital management on the profitability of Deposit Money Banks (DMBs) quoted on the Nigeria Stock Exchange for single period of year 2013. The paper adopted ROE and ROA as dependent variable for profitability while Current ratio (CRR), profit before taxation and current liabilities are proxies for working capital and as well independent variables. Regression was used to determine the relationship between the dependent and the independent variables and the study finds that significant and positive relationship exist between the working capital management and profitability.

Uremadu, Egbide and Enyi (2012) also tried to determine the effect of working capital management and liquidity on profitability of listed firms in the Nigerian productive sector for a period 2005-2006. The micro-data were analyzed using descriptive statistics and Ordinary Least Squared (OLS) method. Negative relationship between cash conversion cycle, creditors' payment period, debtor collection period and profitability were discovered. It was discovered that cash conversion cycle is the most significant precision variable in influencing profit and leads corporate profitability in Nigeria.

3 Methodology

The study adopted a descriptive research design. The research design is considered most appropriate because it describes the statistical relationship between two or more variables; it also estimates the impact of independent variables on the dependent variables. The population of the study comprises all sixteen (16) Food and Beverages firms quoted on the Nigeria Stock Exchange and the sample of this study comprised of listed foods and beverages companies that have been in operation for a minimum of five years in Lagos State, Nigeria and have consistent data for the period of 2013 to 2018. Random sampling technique was used to select the fourteen firms (14) out of the sixteen (16) firms in the Nigerian Stock Exchange. Secondary source of data was employed for this research, obtained from financial report of the sampled companies from 2013-2018. It was sourced from published annual report of

firms concerned. Other secondary data and financial reports were extracted from fact book, websites, and Nigeria stock Exchange. The data collected were analyzed quantitatively using Panel Regression analysis.

4 Results and discussion

Assessing the Extent to Which Working Capital Management Variables Influences Profitability of Food and Beverages Firms.

Table 1 Redundant Effect Results.

Effect Test	Statistics	DF	P-value
Cross-section F	2.735824	(13,44)	0.0064**
Cross-section Chi-square	41.467548	13	0.0001**
Period F	1.348793	(4,44)	0.2671

Source: Researcher's computation, 2021

Indicate 1% *, 5% **, and 10% *** level of significance

Table 1 presented the result of redundant test after fixed effect analysis. The test was useful to verify whether or not either panel fixed effect or random effect test was essential to ascertain how reasonable the variables (independent) best explained working capital management. Looking at the result in the table, it was found that the fixed effect test was a better computation for ascertaining the degree of closeness of the explanatory variable to the dependent variable. This indicated that fixed effect test was appropriate in determining which of the independent variables of the model a good determinant of working capital management was. This assertion was premised on the fact that the p-value of the cross section chi-square computed for fixed effect of 0.0001 was less than the critical value of 5%. It was found that the p-value of the F-Statistics computed for period effect test of 0.2671 was greater than the critical value of 5% with an insignificance F-statistics value of 1.35, hence, it was reasonable to infer that the fixed effect test was needful for this objective on the determinants of working capital management.

Panel fixed effect test was also carried out to determine the effect of working capital management on reported profitability of the selected firms. Table 2, presented the results of panel fixed effect test where the dependent variable was profitability of the selected firms proxy as profit before income tax.

Table 2. Results of Panel Fixed Effect (Dependent variable = Return on Asset

Variables	Coefficient	Standard Error	T-calculated	P-value
C	0.221339	1.502812	0.147283	0.8834
CCC	0.252905	0.028452	8.888830	0.0000
CEX	0.004859	0.009335	0.520532	0.6047
SIZE	0.100222	0.004417	22.69006	0.0000
GROWTH	0.091988	0.013872	6.631200	0.0000
ROA	9.409029	1.065338	8.831965	0.0000
CFL	1.373564	0.252313	5.443894	0.0000
R-squared	0.974424		Mean dependent var	5.976429
Adjusted R-squared	0.967987		S.D. dependent var	12.16931
S.E. of regression	4.744678		Akaike info criterion	6.117909
Sum squared resid	1283.182		Schwarz criterion	6.535487
Log likelihood	-201.1268		Hannan-Quinn criter.	6.283776
F-statistic	33.07565		Durbin-Watson stat	1.408656
Prob(F-statistic)	0.000000			

Source: Researcher's computation, 2021

Discussion

Table 2 presented the result of panel regression obtained for testing the effect of working capital management on the reported profitability of the selected Food and Beverage firms. Looking at the result in the table, it might be asserted that there was a significance effect of working capital management on profitability of the selected firms. This assertion was premised on the fact that the p-value of the t-statistics computed for the variable of 0.0000 was less than the critical value of 5% with significance t-statistics value of 8.89. The import of this was that working capital management exerted a substantial effect on profitability of the selected firms. This further showed that the right management of working capital that enhanced continuous availability of operational funds

might improve the profitability of the selected firms. Inadequacy of working capital had been found by Aliyu (2013) to have a spiral effect on reported profitability of firms in Nigeria. With adequate strategies in place on working capital management to effective cash conversion period, adequate account payable period and the sufficient account receivable period, the profitability of the selected firms might be enhanced. The regression coefficient obtained for working capital management was 0.25 and positive. This revealed that there was a positive/direct relationship between working capital management and profitability of the selected firms. The accounting implication of this was that a 1% increase in working capital management might lead to 0.25% improvement in the reported profitability of the selected firm. The sign of this coefficient conformed to the a priori expectation for the variable.

It was discovered that there was no substantial effect of the ratio of capital expenditure to sales on reported profitability of the selected firms. This inferred was based on the fact that the p-value of the t-statistics computed for the variable of 0.6047 was greater than the critical value of 5% with insignificant t-statistics value of 0.52. The potential effect of this was that capital expenditure to sales had no sufficient impact on the reported profitability of the selected. This was so because on the fact that most of the items under capital expenditure had no direct link on recurrent operational processes of these firms and hence, these items had no direct implication on reported profitability of the selected Food and Beverage firms. The regression coefficient obtained for capital expenditure to sales (CEX) of 0.0049 revealed the existence of a positive relationship between capital expenditure to sales (CEX) and reported profitability of the selected firms but this relationship was not significant. The economic import of this was that a unit increase in the capital expenditure to sales (CEX) might lead to 0.0049% increase in reported profitability. The sign of this variable was in tandem with the a priori expectation. This variable might be a determinant of profitability in the selected firms.

Furthermore, it was discovered that there was a sufficient effect of firm size on reported profitability of the selected firms. This inferred was based on the fact that the p-value of the t-statistics calculated for the test of 0.0000 was less than the critical value of 5%. It was evidence to assert that firm size was significance on the profitability of these firms. Firm size in terms of market share, plant size and the effectiveness of each market location where the firm had its present might go a long way in determining the level of profitability accrued to a firm. A firm might enjoy consistent profitability if share of its market was substantially large. This was because with large market size, any market not fulfilling the expectation of the firm in term profitability, the loss in the market might be absorbed by another market with consistent inflow of revenues. The regression coefficient computed for this variable of 0.10 indicated the existence of a positive relationship between market size and

reported profitability of the selected firms and hence, a 1% increase in firm size might lead to 0.10% improvement in profitability. The sign of this coefficient was in conformity with the priori expectation for this parameter. Firm size might be one of the determinants of profitability in the selected firms.

The result in the table further showed that firm growth was substantially significant on profitability of the selected firms. This assertion was premised on the fact that the p-value of the t-statistics calculated for the test of 0.0000 was less than the critical value of 5%. The implication of this was that the growth of a firm in terms of gross earnings, assets growth, and plant size, growth in customers' patronage and sufficient number of markets might enhance the profitability of the selected firms. Profitability improvement in any organization had been found by Aliyu (2015) to be a direct function of availability of beneficial growth through consistent market share, consistent customers' patronage and sufficient numbers of clients. Profitability might be increased through adequate customers' patronage and consistent improvement in alternative market diversification. The regression coefficient obtained for this test item of 0.09 showed an existence of a positive relationship between firm growth and profitability of the selected firms. The economic meaning of this was that a 1% increase in the growth of the selected firms might lead to 0.09% improvement in the reported profitability of these firms. The sign of this variable was in tandem with the priori expectation and hence, this variable might be a determinant of profitability in the selected firms.

More so, the result showed that the p-value of t-statistics computed for operational cash flow to sales of 0.0000 was less than the critical value of 5%. This implied that the null hypothesis which stated that there was no significant impact of operational cash flow to sales (CFL) on reported profitability of the selected firms was rejected. It was evidence to assert that there was a significant impact of operational cash flow to sales (CFL) on profitability of the selected firms. Availability of sufficient funds for operation might enhance not only the sales but also profitability of the selected firms. Profitability was a direct function of how organizations were able to continue to operate without fear of sudden stoppage in operation. A firm might continue to realize profit if it produced within a given level of cost as long as operation did not stop. Failure of a firm to cover sufficiently its operational cash flow might spell doom for the firm profit and vice-versa. The regression coefficient obtained for operational cash flow to sales (CFL) was 1.37. This showed an existence of a positive relationship between operational cash flow and reported profitability of these firms and hence, a 1% increase in operational cash flow to sales (CFL) might lead to 1.37% improvement in the reported profitability of these firms. The sign of this coefficient was in tandem with the priori expectation for the variable. This operational cash flow to sales (CFL) might be one of the determinants of reported profitability in Food and Beverages Firms.

The results in the table showed that all other statistics obtained for this test

such as coefficient of determination, F-statistics, Akaike Information Criterion, Schwarz information criterion, Hannan–Quinn criterion and Durbin-Watson statistics all indicated the fact that the exogenous variables of the test were perfect predictor for the reported profitability. For instance, the p-value of the F-statistics computed for the test of 0.0000 was less than the critical value of 5%. This consistently, in indicated that the null hypothesis which stated that there was no significance relationship between working capital management and profitability of the selected firms was rejected. In fact, it was found that the coefficient of determination computed for this test of 0.97 showed that 97% of reported profitability of these firms was explained by working capital management. In addition, the Durbin-Watson Statistics obtained of 1.408656 revealed that the variables of the test were free from auto correlation and hence, it was reasonable to verify the robustness of the panel fixed effect test.

5 Conclusion and Recommendations

The study concluded that working capital management variables influences the profitability of firms. It could be reasonable infer that variables such as; Cash Conversion Cycle (CCC), Capital Expenditure Sales (CEX), SIZE, GROWTH, Return on Asset (ROA), Operational Cash flow (CFL) and Return on Investment (ROI) influences profitability of the selected firms. It was found that there was a substantial impact of working capital management on profitability of foods and beverages firms. Furthermore, there is need for the organization management to continue to deploy the right expertise in managing and sufficiently protecting their working capital.

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