ENHANCING THE PROFITABILITY OF NIGERIAN FIRMS IN THE CONGLOMERATE SECTOR THROUGH MANAGEMENT OF NET WORKING CAPITAL

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ABSTRACT

The study examined the influence of net working capital on profitability. Firm's management must understand that recessive period warrants revisiting short term financing and investing strategies of the company to optimize its profit-making potential. It evaluated the extent to which cash conversion cycle, the firms' investment policies using the relationship between current assets to total assets ratio, and the firms' financing policies using the relationship between current liabilities to total assets ratio impact on profitability. The study concentrated on the conglomerate (incorporates engineering and manufacturing) sector of the Nigerian Stock exchange. Panel data were employed to correct autocorrelation. Results of multiple correlation and regression analyses showed that the systematic variation is explained by only 7.2% coefficient of determination (R^2) at P-value = 0.516. That is, 7.2% of the variation in ROA is explained by changes in the predictors. The summary ANOVA table also depicts that the value of F = 0.877 is not significant at P-value = 0.516. However, to optimize profits, a firm should maintain an optimal mix of the components of working capital: inventory period, accounts receivable period, cash and cash equivalents and accounts payable period that result in a shorter cash conversion cycle. An optimal mix guarantees comprehensive protection against risk of insolvency / illiquidity.

Keywords: working capital, profitability, Firms, Conglomerates.