IMPACT OF WORKING CAPITAL MANAGEMENT ON THE PROFITABILITY OF MANUFACTURING COMPANIES LISTED ON THE NIGERIAN STOCK EXCHANGE

YUSUF AMINU

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IMPACT OF WORKING CAPITAL MANAGEMENT ON THE PROFITABILITY OF MANUFACTURING COMPANIES LISTED ON THE NIGERIAN STOCK EXCHANGE

By

YUSUF AMINU

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ABSTRACT

Working capital management refers to the management of the short-term assets of a business. It is very important and plays a vital role for firms’ profitability. In spite of its importance, there is a serious dearth of literature on working capital management and profitability especially in sub-Saharan Africa, particularly Nigeria. Therefore, the objective of this study is to investigate the impact of working capital management on the profitability of the manufacturing companies listed on the Nigerian Stock Exchange. Panel data methodology was employed to test this relationship with both the fixed and the random effects estimation techniques. Accordingly, all the manufacturing companies on the Nigerian Stock Exchange totalling 55 were drawn as the sample and the study was conducted for five years (2008-2013). Data were obtained from the financial statements of the companies through the Securities and Exchange Commission. Findings from the panel data regression analysis revealed that average collection period and inventory conversion period were significantly negatively related to profitability, which suggests that the shorter the periods the higher the profitability of the manufacturing companies. However, average payment period was positively and significantly related to profitability, depicting that the longer the period, the higher the profitability. The debt ratio and other current liabilities to the total assets ratio were not significantly related to profitability. Finally, the study provides managerial implications and the direction for future research.

Keywords: working capital management, Nigerian Stock Exchange, profitability, Nigeria.
ABSTRAK


Kata kunci: pengurusan modal kerja, kitaran penukaran tunai, keberuntungan, Nigeria.
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<td>Average Collection Period</td>
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<td>APP</td>
<td>Average Payment Period</td>
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<td>CATAR</td>
<td>Current Asset to Total Asset Ratio</td>
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<td>CLTAR</td>
<td>Current Liabilities to Total Asset Ratio</td>
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<td>DR</td>
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<td>FE</td>
<td>Fixed Effect</td>
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<td>GOP</td>
<td>Gross Operating Profit</td>
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<td>ICP</td>
<td>Inventory Conversion Period</td>
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<td>MVA</td>
<td>Manufacturing Value Added</td>
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<td>NETOPR</td>
<td>Net Operating Profit</td>
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<td>NLS</td>
<td>Natural Logarithm of Sales</td>
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CHAPTER ONE
INTRODUCTION

1.1 Background of Study

Literature relating to corporate finance have centered mostly on long-term financial decisions, mainly on investment decisions, company valuations, capital structure and dividends (Afza & Nazir, 2007). The short-term assets and liabilities are important components of total assets and therefore needs to be carefully analyzed (Afza & Nazir, 2007). In view of their importance, there is the need for careful and systematic investigation of these short term assets and liabilities, since they play a vital role for firm’s profitability, risk, as well as its value (Smith, 1980).

Efficient and effective management of working capital is an important component of overall corporate strategy to create the shareholder’s value. Firms try to keep an optimal level of working capital that maximizes the value (Deloof, 2003; Howorth & Westhead, 2003; and Afza & Nazir, 2007). In line with this, working capital management has become one of the most important issues in the organizations (Lamberson, 1995).

Therefore, working capital and its importance is unquestionable (Fillbeck & Krueger, 2005). It directly influences the liquidity and profitability of firm (Raheman & Nasr, 2007). Excellent management of working capital decreases the dependence on external financing due to increased cash flow, thus lowering the chances of default for an organization (Deloof, 2003).
The contents of the thesis is for internal user only
REFERENCES


