European Journal of Business and Innovation Research
Vol.13, No.1, pp.,71-86, 2025
Print ISSN: 2053-4019(Print)
Online ISSN: 2053-4027(Online)
Website: https://www.eajournals.org/
Publication of the European Centre for Research Training and Development -UK

Working Capital Management and Profitability of Consumer Goods Companies in Nigeria

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doi: https://doi.org/10.37745/ejbir.2013/vol13n17186 Published January 17, 2025

Citation: Adetona-Ibrahim T., Igba N., Abdullahi M.L., Yakubu D., and Maitala F.H. (2025) Working Capital Management and Profitability of Consumer Goods Companies in Nigeria, *European Journal of Business and Innovation Research*, Vol.13, No.1, pp.,71-86

Abstract: *This study investigates the impact of working capital management (WCM) on the profitability of consumer goods companies in Nigeria. Using a quantitative research design, panel data from five selected companies over a five-year period (2019–2023) were analyzed. Key working capital metrics, including Accounts Receivable Period (ARP), Accounts Payable Period (APP), and Inventory Turnover, were examined alongside profitability measured by Return on Assets (ROA). A Fixed Effects regression model was employed to evaluate the relationship between WCM components and profitability, while diagnostic tests ensured the robustness of the results. Findings reveal that ARP and APP have statistically insignificant impacts on ROA, suggesting that receivables and payables management practices may not significantly influence profitability. Similarly, Inventory Turnover showed no robust relationship with profitability, highlighting the complexity of WCM in driving financial performance. Control variables such as firm size and leverage were marginally significant, suggesting their potential role in profitability. The study concludes that while effective WCM practices are essential for operational efficiency, their impact on profitability may depend on firm-specific and industry-specific factors. Recommendations include optimizing inventory management, streamlining receivables and payables cycles, and tailoring WCM strategies to the unique challenges of Nigeria's consumer goods sector.*

Keywords: Accounts Receivable Period (ARP), Accounts Payable Period (APP), Inventory Turnover, Return on Assets (ROA)

INTRODUCTION

A vital and passionately debated issue in financial management. Working capital management's pivotal role in financial performance, sustainability, and operational efficiency cannot be overstated

(Bagh, Nazir, Khan, & Razzaq (2016). Working capital refers to the difference between a company's current assets and current liabilities. It's all about ensuring you have enough cash and assets to operate efficiently.

Efficient working capital management involves optimizing inventory, accounts receivable, and accounts payable levels to ensure smooth operations and financial stability. A Positive working capital demonstrates the firm's ability to settle its short-term debt, whereas a negative working capital indicates cash flow problems and the firm's inability to pay off its short-term debt. The impact of working capital management on the financial performance of a firm can be affected by factors like economic crises like the 2008 financial crisis and the COVID-19 pandemic, these occurrences posed their own set of threats to companies and the economy in general. The 2018 crisis brought about a sudden credit crunch, restricting working capital for the businesses due to their risk aversion (Almeida & Campello, 2007) while the pandemic caused supply chain disruptions, demand shocks, and operational shutdowns which emphasized the need for inventory agility and operational resilience (Baldwin & Weder di Mauro, 2020). To this end, Companies must employ situational working capital management strategies, tailoring these strategies to the problem faced at that time to optimize their financial performance (Ahmad, 2022; Iqbal ,2023; Jabbouri, 2022).

The consumer goods sector in Nigeria is a continually changing environment characterized by thin margins and intense competition. Its contribution to the nation's economy, providing essential products, and employment opportunities, and supporting the overall GDP growth. However, it comes with its own unique set of challenges which include supply chain disruptions, fluctuating consumer purchasing power, and inflationary pressures. To maintain profitability and competitive advantage, these companies must critically assess their working capital management techniques. Hence this study aims to examine the relationship between WCM components and profitability, to provide actionable insights for managers in the Nigerian consumer goods sector to aid in optimizing working capital strategies, thereby ensuring that firms maintain both operational efficiency and financial stability.

LITERATURE REVIEW

Conceptual Clarification

Firm Profitability

Profitability reflects a firm's ability to generate income relative to its revenue, assets, equity, or other financial metrics over a specific period. It is a fundamental measure of a firm's financial health and performance and is critical for assessing the firm's capacity to go about its daily operations, expand, and reward its stakeholders. A firm's profitability can be influenced positively or negatively by various factors ranging from macroeconomic to firm-specific or industry-specific factors. These factors include but are not limited to firm size, firm leverage, inflation rate, exchange rate,

geographical location, and GDP (Dewi, 2019; Zouaghi, 2017). Profitability is central to both internal management decisions and external assessments by investors and lenders. Firms with higher profitability are better equipped to handle uncertainties, invest in growth, and generate shareholder value (Gitman et al., 2018). Profitability serves as an indicator of management effectiveness and operational efficiency and can be derived from two key components: Revenue generation, which is the total income from the firm's primary operations, and Cost efficiency which is the minimization of operational and production costs while maintaining quality and output (Damodaran, 2002). Profitability can be measured primarily through ratios like Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE).

Working Capital Management

Working capital management (WCM) involves managing a firm's short-term assets and liabilities to ensure efficient operations, optimal liquidity, and profitability. A critical component of financial management, providing a balance between sufficient liquidity and maximization of returns. It entails monitoring and optimizing key components, including inventory, accounts receivable, and accounts payable. According to Atrill and McLaney (2022), WCM ensures a company can sustain daily operations without interruptions due to liquidity constraints while minimizing the cost of holding current assets. WCM directly impacts a firm's profitability and financial health. Efficient WCM can reduce the risk of insolvency and improve operational efficiency. Hill, Kelly, and Highfield (2010) emphasize that effective WCM allows firms to balance liquidity and profitability, fostering sustainable growth. For example, maintaining an optimal level of inventory ensures that a firm can meet customer demand without tying up excessive funds in stock. As mentioned earlier, WCM becomes even more critical during periods of economic uncertainty. During financial crises, firms with efficient WCM are better equipped to navigate liquidity challenges, as highlighted during the 2008 financial crisis and the COVID-19 pandemic (Baños-Caballero et al., 2021). These crises revealed how short-term financial management strategies influence a firm's resilience.

Components of Working Capital Management

Inventory Management

Ensures inventory levels align with production and sales demands. High inventory turnover indicates efficient inventory management, whereas excess inventory can increase holding costs and risk obsolescence (Atrill & McLaney, 2022).

Accounts Receivable Management

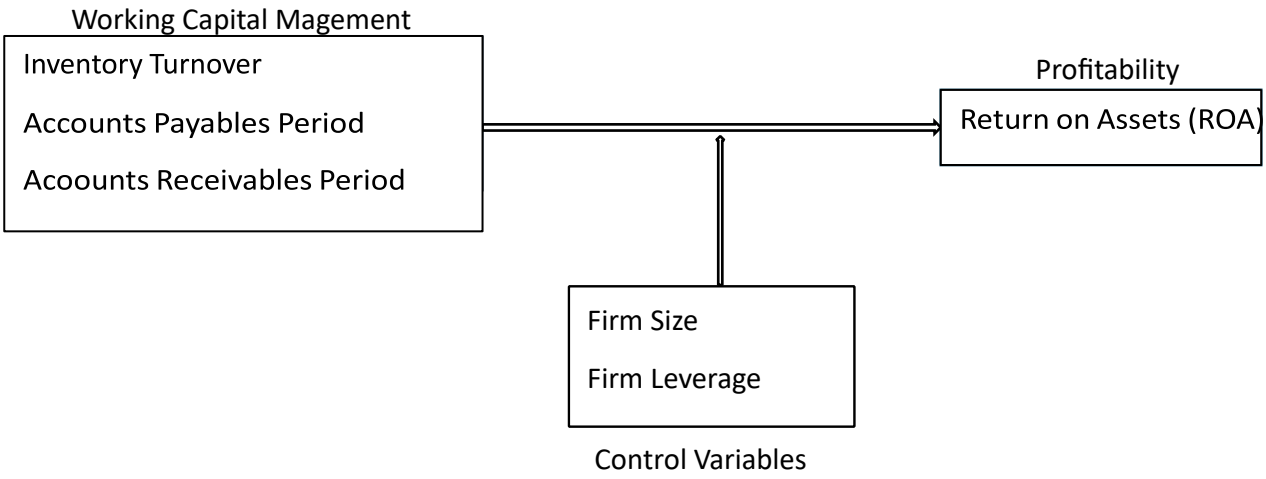
Accounts receivable management involves setting clear credit policies and ensuring timely collection of payments. Prolonged collection periods can tie up cash resources and elevate the risk of bad debts, which may undermine a firm's liquidity. Efficient management of receivables enhances cash flow and mitigates credit risk, contributing to overall financial stability (Atrill & McLaney, 2022; Deloof, 2003). Research shows that companies with shorter receivable periods are better

positioned to maintain operational efficiency and reduce dependency on external financing during economic uncertainties (Enqvist et al., 2014)."

Accounts Payable Management

Accounts payable management involves strategically balancing payment schedules to preserve liquidity while maintaining strong supplier relationships. Prolonging payment terms can temporarily enhance cash flow but risks damaging supplier trust if overused. Conversely, timely payments may strengthen partnerships but could limit immediate liquidity for other needs. Companies often use strategies like tracking Days Payable Outstanding (DPO) to align cash flow objectives with payment practices (Deloitte, 2023; PeakFlo, 2023).

Conceptual Framework



Theoretical Review

The Cash Conversion Cycle Theory (CCC)

The Cash Conversion Cycle is a vital concept in working capital management. It shows the time it takes for a company to turn its inventory and accounts receivable into cash flow from sales. The CCC is directly linked to profitability as a shorter cycle generally indicates efficient asset utilization, which can enhance profitability by reducing financing costs (Richards & Laughlin, 1980). By managing inventory and receivables effectively, firms can reduce their need for external financing, thus improving their overall profitability (Deloof, 2003). The Cash Conversion Cycle (CCC) is a key indicator in working capital management, reflecting the duration between the purchase of raw materials and the subsequent collection of cash from sales of finished products. It serves as a comprehensive measure of how efficiently a company manages its working capital (Padachi, 2006).

Financial Flexibility Theory

Propounded by Stewart C. Myers in 1977, the Financial Flexibility Theory refers to a firm's ability to adapt to changing financial conditions by managing its capital structure and liquidity. This theory highlights the importance of maintaining financial flexibility so that a firm can access capital when needed, manage risks, and make strategic investments without being constrained by its existing obligations. This concept is crucial for ensuring long-term sustainability, especially in times of economic volatility or when pursuing growth opportunities. Financial flexibility helps firms manage their capital structure efficiently by balancing debt and equity. Myers (1977) emphasizes that companies with greater financial flexibility are in a better position to withstand financial distress and invest in new projects or expansions when needed. In the context of working capital management and profitability, the Financial Flexibility Theory suggests that firms need to maintain a balance between managing their current assets and liabilities. This approach ensures liquidity while safeguarding profitability. By preserving financial flexibility, companies can access internal funds, reduce dependence on external financing, and seize strategic opportunities (Panda, 2018). Effective management of working capital, in alignment with the principles of financial flexibility, enables firms to optimize resource allocation, respond to changing market conditions, and ultimately drive sustainable profitability.

Pecking Order Theory

The pecking order theory (Myers & Majluf, 1984) posits that firms prefer internal financing (retained earnings) to external financing (debt or equity), as the latter incurs additional costs such as interest payments or dilution of ownership. A company with efficient WCM reduces its need for external financing, allowing it to have more retained earnings, thereby improving profitability. This theory reinforces the importance of managing working capital in a way that minimizes external funding reliance and maximizes internal financial resources.

Operating Cycle Theory

The Operating Cycle Theory is fundamental to understanding the dynamics of working capital management as it focuses on the time required for a firm to convert its raw materials and other inputs into cash through sales. The theory is particularly relevant in this study on consumer goods companies due to their high turnover rates, where managing inventory and receivables effectively can significantly impact liquidity and profitability.

The Operating Cycle Theory offers a practical framework for evaluating a firm's efficiency in managing working capital. It helps highlight areas for improvement in operational processes, such as minimizing the time required to produce and sell goods. Additionally, the theory emphasizes the importance of tailoring the analysis of the operating cycle to align with the specific dynamics and demands of a firm's industry. This approach enables companies to enhance liquidity and profitability by optimizing their working capital practices. The operating cycle theory, as outlined by Padachi (2006), is a comprehensive framework that measures a firm's efficiency in converting its

investments in inventory and receivables into cash. It involves analyzing the time lag between the expenditure for raw materials and the collection of cash from sales, providing insights into how companies can enhance their operational efficiency.

Empirical review

Echor and Lohor (2024) examined the effect of working capital management on the performance of quoted manufacturing companies in Nigeria. Focusing on inventory turnover and accounts receivable periods, the study analyzed 26 companies from 2011 to 2021 using panel data regression analysis. The results indicated that while inventory turnover had a positive but insignificant effect on performance, accounts receivable period showed a negative, albeit insignificant, effect. The study concluded that poor management of working capital components by Nigerian manufacturing firms contributed to suboptimal performance. The authors suggest improving inventory management systems and reducing delays in accounts receivable collection to boost financial performance.

Iyalla and Ibrahim (2024) explored the relationship between working capital management practices and the financial performance of consumer goods manufacturing firms in Nigeria. Their study used a sample of 20 firms listed on the Nigerian Stock Exchange, covering the period from 2011 to 2020. The authors employed the generalized method of moments (GMM) model to assess key working capital metrics: the cash conversion cycle (CCC), inventory turnover period (IVP), accounts payable period (APP), and accounts receivable period (ARP). The results revealed that a shorter CCC and higher inventory turnover positively affected financial performance (measured by ROA), while a longer accounts payable period had a negative impact, and a longer accounts receivable period led to improved performance. This study underscores the importance of optimizing working capital practices for better financial outcomes in Nigeria's consumer goods manufacturing sector.

Okphiabhele et al. (2022) examined the relationship between working capital management and profitability in Nigeria’s industrial goods sector, focusing on variables such as Cash Conversion Cycle (CCC), Current Ratio (CR), Quick Ratio (QR), and Working Capital Turnover Ratio (WCTR). The findings reveal mixed results: while the CCC and QR showed a positive but insignificant relationship with profitability, the CR negatively affected profitability, highlighting the importance of managing liquidity levels. Additionally, the WCTR had a negative and insignificant relationship with profitability, suggesting that higher working capital turnover does not necessarily correlate with better financial performance. The study emphasizes the need for companies in this sector to strategically manage their short-term financial strength to enhance profitability.

Adina (2019) conducted a study to analyze the efficiency of working capital management in Alba County companies, examining the relationship between working capital management and productivity. The study, using data from 20 companies for the period 2004-2008 and employing Pearson correlation analysis, found a weak negative linear correlation between working capital management indicators and productivity rates.

Charitou et al. (2019) investigated the effect of working capital management on financial performance in emerging markets, focusing on firms listed on the Cyprus Stock Exchange between 1998 and 2007. Their multivariate regression analysis revealed that the CCC and its components, including days in inventory, days in sales outstanding, and creditor's payment period, were significantly related to firm productivity, highlighting the importance of effective working capital management in enhancing financial performance, especially in the wake of the global financial crisis.

Ekwochi et al. (2021) examined the effect of working capital management on the productivity of manufacturing companies in Southeast Nigeria, focusing on firms such as Innoson Technical and Industrial Company Limited, Chippings in Ebonyi State, and Universal Crushing in Imo State. Their study utilized panel data from 10 listed manufacturing firms over the period 2008-2017, employing various regression estimators. The study found that the cash collection period and cash payment period had a negative impact on Return on Assets (ROA), with the cash payment period having a statistically significant effect. Conversely, both the current ratio and inventory period positively impacted ROA, though only the current ratio showed significant results. These findings suggest that effective working capital management plays a critical role in enhancing the profitability of firms in Nigeria. The study recommended maintaining a shorter collection period and managing payments to creditors efficiently to leverage cash discounts, as well as optimizing inventory management to avoid idle resources that could harm financial performance.

METHODOLOGY

This study adopted a quantitative research design using panel data regression analysis to explore the effect of working capital management on the profitability of consumer goods companies in Nigeria. The population of this study consists of 21 quoted consumer goods companies in which 10 companies with available and current financial statements were randomly selected to form the sample. This study utilized secondary data, using the financial statements of the 10 companies selected. The analysis covered 5 years of financial data from 2019 to 2023 and employed fixed effects model to examine the relationship between working capital indicators, and profitability metrics. The Fixed Effects model is designed to account for unobservable time-invariant heterogeneity at the firm level, effectively capturing individual firm-specific effects that may influence the dependent variable, ROA (Return on Assets). Several diagnostic tests are conducted to ensure the robustness and validity of the panel data regression results. Descriptive statistics was utilized to summarize key financial variables. The use of panel data allows for considering both company-specific and time-based factors, providing a clearer understanding of how working capital management influences profitability in consumer goods firms.

RESULTS AND DISCUSSION OF FINDINGS

Descriptive Statistics						
	ROA	INV	ARP	APP	SIZE	LEV
Mean	0.060346	81.93088	57.86287	137.2445	7.840998	0.651284
Median	0.05995	78.42005	56.4021	122.5475	7.85505	0.6282
Maximum	0.2376	156.4303	134.2029	536.4055	8.5648	1.4359
Minimum	-0.3038	43.8267	8.3886	7.1543	6.9685	0.3344
Std. Dev.	0.090091	28.456	27.65988	93.43388	0.42459	0.176287
Skewness	-1.196222	1.036622	0.705698	1.49805	-0.311599	1.671753
Kurtosis	7.074688	3.637162	3.390204	7.846309	2.463386	9.408983
Probability	0.297038	0.067444	0.107138	0.078556	0.49435	0.586544
Jarque-Bera	46.51431	9.800652	4.467283	67.63193	1.409021	108.8627

Source: Authors Computation,2024

The descriptive statistics in the table above provides valuable insights into the key variables of interest in the study on the effect of Working Capital Management (WCM) on the profitability of listed consumer goods companies in Nigeria. The mean Return on Assets (ROA) is 0.0603, indicating the average level of profitability across the sampled firms. The median ROA is slightly lower at 0.0599, suggesting a potential asymmetry in the distribution, which is confirmed by the

negative skewness value of -1.20. The negative skewness implies that the distribution of ROA is skewed to the left, indicating that more firms in the sample may experience lower profitability

The measures of central tendency and dispersion for Inventory Turnover (INV), Accounts Receivables (ARP), and Size are also critical for understanding the working capital dynamics within the consumer goods sector. The skewness and kurtosis values for Size and Leverage (LEV) highlight the distributional characteristics, with positive skewness indicating a right-skewed distribution for Size and LEV.

The results from the Jarque-Bera test and associated probability values assess the normality of the data distribution. In this context, the probability values for ROA, INV, ACR, and Size are greater than the conventional significance level of 0.05, suggesting that these variables may not significantly deviate from a normal distribution. The findings indicate the need for further statistical testing and inferential analyses to draw robust conclusions regarding the relationships between working capital management and profitability in the consumer goods sector in Nigeria.

Multicollinearity

Correlation Matrix						
	ROA	INV	ACR	ACP	SIZE	LEV
ROA	1					
INV	0.148	1				
ARP	0.1026	0.2086	1			
APP	0.016	-0.2943	-0.0928	1		
SIZE	0.3851	0.1981	-0.0018	0.0038	1	
LEV	-0.2227	-0.1391	0.1985	0.4721	-0.0847	1

Source: Authors Computation, 2024

The correlation matrix in the table above provides insights into the relationships between the variables of interest in the study on the effect of Working Capital Management (WCM) on the profitability of listed consumer goods companies in Nigeria. The correlation coefficients range from -1 to 1, indicating the strength and direction of the linear relationships between pairs of variables. A correlation coefficient of 1 represents a perfect positive correlation, -1 indicates a perfect negative correlation, and 0 implies no linear correlation.

Examining the correlations, Return on Assets (ROA) has a positive correlation with Size (0.3851), suggesting that larger firms tend to have higher profitability. This positive correlation aligns with the expectation that larger firms may have more resources and market share, contributing to enhanced profitability. On the other hand, ROA has a negative correlation with Leverage (LEV) at -0.2227, indicating that firms with higher leverage may experience lower profitability. This negative correlation supports the idea that higher levels of debt may lead to increased financial risk, impacting overall profitability.

There is also a positive correlation between Inventory Turnover (INV) and Accounts Payables (ACP) at 0.4294, suggesting that firms with efficient inventory turnover may also effectively manage their accounts payable. However, caution should be exercised in interpreting causation based on correlation alone, as underlying factors and Causal relationships may require further investigation through regression analysis or other techniques. Overall, the correlation matrix serves as a preliminary exploration of potential associations between variables, guiding subsequent indepth analyses in the study.

Heteroscedasticity Test

Residual Cross-Section Dependence Test			
Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	85.24147	45	0.8203
Pesaran scaled LM	3.187731		0.5014
Pesaran CD	1.843746		0.0652

Source: Authors Computation, 2024

The results of the heteroscedasticity test, as presented in the table above assess the assumption of homoscedasticity in the study on the effect of Working Capital Management (WCM) on the profitability of listed consumer goods companies in Nigeria. Homoscedasticity implies that the variance of the residuals is constant across all levels of the independent variables. Deviations from homoscedasticity could impact the efficiency and reliability of the regression estimates.

In this case, the Breusch-Pagan LM test statistic is 85.24147 with 45 degrees of freedom, resulting in a probability (Prob.) value of 0.8203. The high p-value indicates that there is no significant evidence to reject the null hypothesis of homoscedasticity. This suggests that the variance of the residuals is constant across the levels of the independent variables, supporting the reliability of the regression results. The Pesaran scaled LM and Pesaran CD tests further confirm this conclusion, with p-values of 0.5014 and 0.0652, respectively. These results collectively suggest that the

assumption of Homoscedasticity is not violated, strengthening the robustness of the regression analysis in the context of the study.

Hausman Test

Correlated Random Effects - Hausman Test			
Test Summary Cross-section random	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
	12.917094	6	0.0444

Source: Authors Computation, 2024

The test and table above provide the logic behind my choice to use the Fixed Effects (FE) model in the study. The Hausman Test assesses whether the individual effects are correlated with the regressors, helping researchers decide between the efficiency of the CRE model and the consistency of the FE model. The Chi-Square Statistic for cross-section random effects is 12.917094 with 6 degrees of freedom, resulting in a p-value of 0.0444. The probability value is less than the conventional significance level of 0.05, indicating that there is significant evidence to reject the null hypothesis of no correlation between the individual effects and the regressors. This shows that fixed effects model is more appropriate than the correlated random effects model. Therefore, it would account for unobservable time-invariant heterogeneity at the firm level and enhance the reliability of the regression estimates.

Fixed Effect Regression

Fixed Effect Regression Result				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
INV	-0.000707	0.000585	-1.207839	0.2354
ARP	0.000302	0.000504	0.599496	0.5528
APP	2.41E-05	0.000151	0.159528	0.8742
SIZE	-0.216673	0.111844	-1.937284	0.0611
LEV	-0.12515	0.086074	-1.453976	0.1551
C	1.876093	0.879973	2.131989	0.0403

R-squared: 0.636708, R_2 Adjusted 0.476432, F-statistic: 3.972577, Prob of F-statistic = 0.000419, Durbin-Watson stat = 2.871085

The Fixed Effect Regression table above shows a negative and statistically insignificant coefficient of -0.000707 for Inventory Turnover (INV) in the regression analysis (t-Statistic: -1.207839, Prob: 0.2354) implies that changes in inventory turnover do not have a discernible impact on Return on Assets (ROA) for the population. This suggests that inventory management practices, as measured by inventory turnover, may not be a critical determinant of their profitability. The lack of statistical

significance indicates that the relationship between inventory turnover and ROA is not robust enough to draw meaningful conclusions. Therefore, while effective inventory management is generally considered important for operational efficiency, the specific changes in inventory turnover may not be a decisive factor influencing the profitability of the examined consumer goods companies. The results pertaining to Inventory Turnover (INV), showing a negative and statistically insignificant coefficient, resonate with existing literature. Okphiabhele, Ibitomi, Dada & Micah (2022) contribute to this understanding by highlighting the subtle relationship between inventory management variables and Return on Assets (ROA). Specifically, their emphasis on the Inventory Turnover Ratio (ITR) aligns with the present study's finding of an insignificant association between INV and ROA.

It also shows a positive and statistically insignificant coefficient of 0.000302 for Accounts Receivables (ARP) in the regression analysis (t-Statistic: 0.599496, Prob: 0.5528) shows that variations in accounts receivable do not have a statistically significant impact on Return on Assets (ROA) for the listed consumer goods companies in the study. This finding suggests that Receivables management practices, representing the credit extended to customers, may not be a critical factor influencing their profitability.

The positive and statistically insignificant coefficient of 2.41E-05 for Accounts Payables (ACP) in the regression analysis (t-Statistic: 0.159528, Prob: 0.8742) indicates that alterations in accounts payables are not statistically associated with changes in Return on Assets (ROA) for the listed consumer goods companies in the study. This implies that Payables management practices, representing the outstanding amounts owed to suppliers, may not be a significant driver of changes in profitability. While accounts receivables and payables are crucial components of working capital management, their individual variations may not be robust determinants of a firm's overall financial success. The subtle and context-dependent nature of the relationship between these working capital components and productivity emphasizes the importance of considering industry-specific factors and organizational contexts in such analyses.

The negative and marginally significant coefficient of -0.216673 for Firm Size (SIZE) in the regression analysis (t-statistic: -1.937284, Prob: 0.0611) implies a potential influence of company size on Return on Assets (ROA). The negative sign suggests that, on average, larger-sized companies may experience slightly lower profitability. While the specific impact of firm size on ROA may not be decisively established, the negative coefficient suggests a direction for further investigation into the subtle relationship between company size and profitability in the context of consumer goods firms in Nigeria.

The negative and marginally significant coefficient of -0.125150 for Leverage (LEV) in the regression analysis (t-Statistic: -1.453976, Prob: 0.1551) implies a potential association between higher leverage and slightly lower profitability for the listed consumer goods companies in the

study. The negative sign suggests that, on average, firms with higher leverage may experience a decrease in Return on Assets (ROA). The model's R-squared value of 0.636708 indicates that approximately 64% of the variability in ROA is explained by the included variables. The adjusted R-squared of 0.476432 suggests that when accounting for the number of predictors, the model still explains a substantial proportion of the variance. The F-statistic of 3.972577 with a p-value of 0.000419 indicates that the overall model is statistically significant.

CONCLUSION

The importance of efficient working capital management (WCM) is indisputable. Efficient WCM is essential as it has a direct impact on the productivity of firms. An attempt has been made in the present study to examine the relationship between working capital management and productivity in Consumer goods companies in Nigeria. The results of the study provide valuable insights into the complex relationship between Working Capital Management variables and the profitability of listed consumer goods companies in Nigeria, as measured by Return on Assets. The negative and statistically insignificant coefficients for Inventory Turnover and Accounts Receivables and Accounts Payables suggest that fluctuations in inventory efficiency and variations in accounts receivables and payables may not be robust determinants of profitability for the examined consumer goods companies. Furthermore, the negative and marginally significant coefficients for Firm Size and Leverage imply that, on average, larger-sized companies may experience slightly lower profitability, and higher leverage might be associated with a modest decrease in profitability. The study's implications highlight the importance of prudent cash management and emphasize the need for consumer goods companies to tailor their working capital management strategies based on specific industry characteristics and organizational contexts. These findings contribute to the growing body of evidence on the intricate relationship between working capital management and profitability, offering valuable insights for managers in the consumer goods sector in Nigeria.

Recommendations

Based on the findings of this study, the following recommendations can be made:

i. While effective inventory management is generally important, specific changes in inventory turnover may not be a decisive factor influencing profitability. However, companies should adopt inventory management strategies aimed at reducing excess inventory levels and optimizing supply chain processes. Effective inventory management, free's up capital which can be re-invested into profitable assets, which may increase profitability.
ii. Noting a negative and marginally significant coefficient for Firm Size, larger companies may experience slightly lower profitability. Further studies should try and focus on the relationship between profitability and Firm Size in consumer goods companies in Nigeria
iii. There is a potential relationship between high leverage and slightly lower profitability therefore these companies should regularly assess their debt repayment capabilities, and the risks associated with high leverage to ensure sustainable operations.

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