

WORKING CAPITAL MANAGEMENT POLICY AND CORPORATE PROFITABILITY OF NIGERIAN QUOTED COMPANIES: A SECTORAL ANALYSIS

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ABSTRACT

This research was intended to analyse the relationship between working capital management policy and corporate profitability in Nigerian quoted companies. Based on the data of 107 quoted companies spread across 23 sectors for the 2003-2007 period, averages and product-moment correlation coefficients were computed based on measures of net current assets ratio (NCAR), return on assets (ROA) and net profit margin (NPM). The Loveday Likelihood Test was adopted to establish the minimum value for the correlation to be most likely using sectoral data points. On the average all the sectors adopted an aggressive working capital management strategy by relying heavily on current liabilities for financing their working capital needs. It was also found that the adoption of this strategy produced negative profitability in most of the sectors. The results also show strong positive correlation between NCAR and selected measures of profitability. It is recommended that companies would maximize profitability and add value by adopting the conservative working capital management strategy (i.e investing more in current assets) provided the operating environment and money markets are robust.

KEYWORDS: Working Capital, Profitability, Quoted Companies, Sectoral Approach