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Effect of Working Capital Components on Profitability in Selected Food and Beverage Companies in Nigeria

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Abstract

Firms' ability to carry out their stakeholders' requirements is closely related to working capital. The vital issue confronting managers today is the extent to which effect of working capital components influence profitability in selected food and beverage firms in Nigeria has remained a subject of concern among participant in the Nigerian food and beverage firms. Therefore, this study is an attempt to examine the effect of working capital components on profitability in selected food and beverage firms in Nigeria. The study adopts *ex-post facto* research design whereby data was sourced mainly from the audited annual financial reports of selected food and beverage firms in Nigeria on the Nigerian Exchange Group for the period 2007-2022. The population of the study consists of ninety-eight (98) non-financial institutions in Nigeria as at 2022. The sample size of ten (10) food and beverage firms in Nigeria was arrived at using purposive sampling technique whereby non-financial firm which have their annual report and accounts readily accessible for the study period were selected. Analytical techniques used in the study consist of inferential statistics. Panel regression analysis was used to analyse the extent to which working capital components affect profitability in selected food and beverage companies in Nigeria Findings from the result of panel regression analysis on the extent to which working capital components affect profitability in selected food and beverage companies in Nigeria showed that two out of the four explanatory variables were significant in explaining variation in profitability. These cash (p=0.0000) and account payable (p=0.0000). Based on the findings, the study therefore revealed that there is relationship between working capital components and profitability in selected food and beverage firms in Nigeria. The study recommend that Food and beverage companies should improve receivables management through timely collections, credit policy optimization, and reducing overdue debts can enhance cash flow and profitability.

Keywords: Working Capital Components, Profitability, Inventory, Receivable, Payable, Food and Beverage Companies, Nigeria.

Introduction

Working capital management is crucial for the smooth operation and financial stability of businesses, particularly in the food and beverage sector. In this industry, firms deal with perishable products (Deloof, 2023), fluctuating demand, and competitive markets, making efficient management of working capital vital to maintain profitability and sustain operations. Working capital components—such as inventory, accounts receivable, accounts payable, and cash play a significant role in influencing the firm's ability to meet short-term obligations, optimize resource utilization, and enhance profit margins (Raheman and Nasr, 2022). Effective management of these components ensures that a company has enough liquidity to finance its day-to-day activities while minimizing costs and maximizing returns.

Working capital (WC) is a financial metric which represents operating liquidity available to a business, organisation, or other entity, including governmental entities (Lazaridis and Tryfonidis, 2021). Along with fixed assets such as plant and equipment, working capital is considered a part of operating capital. Gross working capital is equal to current assets. Working capital is calculated as current assets minus current liabilities. If current assets are less than current liabilities, an entity has a working capital deficiency, also called a working capital deficit and negative working capital (Afza and Nazir, 2019). A company can be endowed with assets and profitability but may fall short of

liquidity if its assets cannot be readily converted into cash. Positive working capital is required to ensure that a firm is able to continue its operations and that it has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses.
Profitability is a measure of a company's ability to generate income relative to its revenue, assets, equity, or other financial resources over a specific period. It is an essential indicator of a business's financial health and performance, reflecting how effectively a company utilizes its resources to produce profit (Gill, Biger and Mathur, 2020). Common profitability metrics include net profit margin, return on assets (ROA), and return on equity (ROE), each offering insight into different aspects of the company's efficiency in generating earnings. A higher profitability ratio generally indicates that the company is performing well and efficiently managing its costs and resources to achieve maximum returns (Brigham & Ehrhardt, 2017).

Statement of the Problem

The components of working capital—such as inventory management, accounts receivable, and accounts payable—play a pivotal role in determining a firm's liquidity and overall operational efficiency A primary issue is the uncertainty surrounding inventory management practices within these companies (García-Teruel and Martínez-Solano, 2017). Food and beverage firms often maintain high levels of inventory to mitigate the risk of stockouts, especially given the perishable nature of many products. This strategy can lead to increased holding costs and the potential for spoilage, negatively affecting profit margins. The challenge lies in determining the optimal inventory levels that not only meet consumer demand but also minimize costs and enhance profitability. A lack of clarity regarding how inventory management directly correlates with profitability further complicates decision-making processes for these companies (Baños-Caballero, García-Teruel and Martínez-Solano, 2022). Similarly, the management of accounts receivable and accounts payable is critical in influencing profitability, yet the extent of their impact is not fully understood. Delays in collecting payments from customers can severely hinder cash flow, forcing companies to rely on external financing or cutting operational costs, which can impair profitability. Conversely, if firms do not effectively manage their accounts payable, they may miss opportunities for favorable credit terms, resulting in cash flow challenges and reduced profitability (Nwaolisa, and Kasie, 2022). However, the specific extent of their impact on profitability remains underexplored in the context of the Nigerian market.

Aim of the Study

Thus, this makes it imperative for an in-depth study on the nexus between working capital components and profitability in selected food and beverage companies in Nigeria.

Literature Review

Review of Previous Studies

Eze and Ibekwe (2022) examined the impact of working capital components on the profitability of selected food and beverage companies in Nigeria. The study adopted a quantitative approach, using data from financial statements of 10 food and beverage companies listed on the Nigerian Stock Exchange from 2013 to 2020. The researchers employed regression analysis to assess the relationship between working capital components and profitability indicators like return on assets (ROA) and net profit margin (NPM). The study revealed that accounts receivable and inventory turnover had a significant positive effect on profitability, indicating that firms managing these components effectively reported higher profit margins. Conversely, a longer accounts payable period was associated with lower profitability, as it suggested potential cash flow issues. The researchers concluded that efficient management of accounts receivable and inventory is crucial for enhancing profitability in the Nigerian food and beverage sector. They recommended adopting effective credit policies and inventory management techniques.

Ojo and Bello (2021) examined the Effect of Working Capital Management on Profitability in Nigeria's Food and Beverage Sector.The study utilized a descriptive research design, analyzing data from 12 food and beverage companies over a period from 2015 to 2021. The study employed correlation and regression analysis to evaluate the impact of various working capital components on profitability. The results indicated a strong positive correlation between inventory management and profitability, with firms maintaining optimal inventory levels reporting higher ROA. The study also highlighted that poor management of accounts receivable adversely affected profitability, emphasizing the importance of prompt collection of receivables. The study concluded that efficient working capital management significantly impacts profitability. Companies in the food and beverage sector must prioritize managing inventory and accounts receivable to improve financial performance.

Abubakar, and Akinsola (2020) examined working capital management practices and profitability: evidence from the food and beverage industry in Nigeria, The empirical study used a mixed-methods approach, combining quantitative data analysis of financial statements from 15 food and beverage companies and qualitative interviews with industry practitioners. Data were collected from 2014 to 2019 and analyzed using multiple regression techniques. The findings indicated that efficient management of working capital components, particularly accounts payable, positively influenced profitability. Firms that negotiated favorable payment terms with suppliers achieved better cash flow, which in turn enhanced profitability. The study concluded that comprehensive working capital management practices are essential for improving profitability in the food and beverage sector. Recommendations included adopting proactive management strategies for accounts payable and receivable.

Nwankwo and Oduyoye, O. (2019) examined the relationship between working capital components and profitability of food and beverage firms in Nigeria. The research employed a quantitative design, utilizing secondary data from the financial statements of 8 selected food and beverage companies over five years (2014-2018). The analysis involved correlation and regression analysis to assess the relationships between working capital components and profitability indicators such as ROE and NPM. The study found a significant positive relationship between accounts receivable turnover and profitability, indicating that firms effectively collecting their receivables realized higher profit levels. In contrast, excessive inventory levels were shown to negatively impact profitability, suggesting inefficiencies in stock management. The researchers concluded that effective management of working capital components is vital for enhancing profitability in the food and beverage industry. They suggested firms implement better inventory management practices to minimize holding costs and improve cash flow.

Folorunsho and Ijaiya (2021) assessed the impact of working capital management on profitability in selected food and beverage companies in Nigeria. The study used a panel data approach, analyzing financial data from 14 food and beverage firms over a six-year period (2015-2020). Regression analysis was employed to investigate the relationships between different working capital components and profitability. The results indicated that effective inventory management and timely collection of accounts receivable were positively correlated with profitability. The study also highlighted that inefficient accounts payable practices could lead to cash flow constraints, negatively impacting profitability. The conclusion drawn from the study was that strategic management of working capital components is essential for improving profitability. Recommendations included regular assessment of working capital policies to ensure optimal performance.

Adebayo and Olokoy (2022) examined the Role of Working Capital Components in Determining Profitability: Evidence from Nigeria’s Food and Beverage Sector. The research utilized a descriptive correlational research design, focusing on 11 food and beverage companies from 2013 to 2021. The analysis involved regression techniques to explore the impact of various working capital components on profitability indicators. The study found that both accounts receivable and inventory management significantly affected profitability. Companies that maintained efficient working capital practices, especially in receivables collection, experienced better financial outcomes compared to their peers. The researchers concluded that effective working capital management is crucial for profitability in the food and beverage sector. They recommended that firms adopt stringent credit control measures and optimize inventory levels to enhance profitability.

Olatunji and Eze. (2020) examined the impact of working capital management on profitability in nigeria's food and beverage industry. This study adopted a longitudinal research design, analyzing data from 9 selected companies over a period from 2012 to 2019. Statistical analysis, including multiple regression techniques, was utilized to investigate the relationships between working capital components and profitability. The findings indicated that efficient management of working capital components such as accounts receivable and inventory positively influenced profitability. Companies that effectively managed these components reported significantly higher ROE and profit margins. The study concluded that managing working capital components effectively is essential for improving profitability in the food and beverage sector. Recommendations included investing in advanced inventory management systems and enhancing credit management practices.

Methodology

The study adopts *ex-post facto* research design whereby data was sourced mainly from the audited annual financial reports of selected food and beverage firms in Nigeria on the Nigerian Exchange Group for the period 2007-2022. The population of the study consists of ninety-eight (98) non-financial institutions in Nigeria as at 2022. The sample size of ten (10) food and beverage firms in Nigeria was arrived at using purposive sampling technique whereby non-financial firm which have their annual report and accounts readily accessible for the study period were selected. Analytical techniques used in the study consist of inferential statistics. Panel regression analysis was used to analyse the extent to which working capital components affect profitability in selected food and beverage companies in Nigeria

Results and Discussion

Pool regression analysis on the extent to which working capital components affect profitability in selected food and beverage companies in Nigeria

The pool regression analysis results in Table 1 show the extent to which various working capital components—cash (CAS), accounts receivable (ACR), accounts payable (ACP), and inventory management (INM)—affect profitability, with the intercept (C) included in the model. The analysis provides the following key interpretations:

The constant term (C) has a coefficient of 5.6793, which is statistically significant with a p-value of 0.0000. This indicates that when all the working capital components are held constant, the profitability (as measured by the dependent variable) is expected to be 5.6793 units. The significance of this coefficient highlights the existence of baseline profitability, regardless of the variations in working capital components. The coefficient of 0.9882 for the cash variable is highly significant, with a p-value of 0.0000. This suggests that a unit increase in cash holdings results in an increase of 0.9882 units in profitability, indicating a positive and strong relationship between cash levels and profitability. The small standard error of 0.0257 and the large t-statistic of 38.4881 further reinforce the robustness of this finding.

The coefficient for accounts receivable (ACR) is 0.2643, indicating a positive relationship between accounts receivable and profitability, but this relationship is not statistically significant given the p-value of 0.3383. The t-statistic of 0.9629 further suggests that the effect of ACR on profitability is weak and may not have a substantial impact in this context. The coefficient for accounts payable (ACP) is -7.1328, with a p-value of 0.0000, indicating a highly significant negative relationship between ACP and profitability. This means that a unit increase in accounts payable is associated with a 7.1328 unit decrease in profitability. The large negative coefficient and t-statistic of -5.0696 highlight the strong adverse impact of accounts payable on profitability.

The coefficient for inventory management (INM) is -0.2818, showing a negative relationship between inventory management and profitability, but this relationship is not statistically significant, as indicated by the p-value of 0.3554 and a low t-statistic of -0.9291. This suggests that inventory management may not have a major influence on profitability in this model.

The R-squared value of 0.9590 indicates that approximately 95.90% of the variation in profitability is explained by the model. The adjusted R-squared of 0.9571 indicates a very high explanatory power, even after accounting for the number of predictors in the model. This suggests that the model fits the data well and that the included variables explain a significant portion of the variation in profitability.

Cash (CAS) and accounts payable (ACP) are the most significant factors affecting profitability, with cash having a positive effect and accounts payable a negative one. Accounts receivable (ACR) and inventory management (INM) have weaker and statistically insignificant relationships with profitability in this context.

Table 1: Pool regression analysis on the extent to which working capital components affect profitability in selected food and beverage companies in Nigeria

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.679267	1.233053	4.605860	0.0000
CAS	0.988157	0.025674	38.48812	0.0000
ACR	0.264306	0.274480	0.962935	0.3383
ACP	-7.132817	1.406974	-5.069614	0.0000
INM	-0.281788	0.303279	-0.929137	0.3554
R-squared	0.958991	Mean dependent var		12.40527
Adjusted R-squared	0.957061	S.D. dependent var		10.76621
S.E. of regression	2.230941	Akaike info criterion		4.496677
Sum squared resid	423.0534	Schwarz criterion		4.635555
Log likelihood	-197.3505	Hannan-Quinn criter.		4.552681
F-statistic	496.9288	Durbin-Watson stat		0.586143
Prob(F-statistic)	0.000000			

Source: Researcher's Computation, 2025

Random effect regression analysis on the extent to which working capital components affect profitability in selected food and beverage companies in Nigeria

The random effect regression analysis in Table 2 evaluates the influence of working capital components (cash, accounts receivable, accounts payable, and inventory management) on the profitability of selected food and beverage companies in Nigeria. The constant term (C) has a coefficient of 5.6793, which is statistically significant with a p-value of 0.0000. This suggests that when all other variables are held constant, the baseline profitability (measured by the dependent variable) is positive and substantial. The coefficient for cash (CAS) is 0.9882, which is highly significant with a p-value of 0.0000. This indicates that an increase in cash is positively associated with profitability. Specifically, a unit increase in cash holdings leads to a 0.9882 increase in profitability, holding other factors constant.

For accounts receivable (ACR), the coefficient is 0.2643, but with a p-value of 0.3545, which is not statistically significant. This means that while there is a slight positive relationship between accounts receivable and profitability, it is not strong enough to be considered a reliable predictor in this model. The coefficient for accounts payable (ACP) is -7.1328, and this relationship is statistically significant with a p-value of 0.0000. This negative coefficient suggests that an increase in accounts payable is associated with a decrease in profitability. Specifically, a unit increase in accounts payable reduces profitability by 7.1328 units, holding other variables constant. For inventory management (INM), the coefficient is -0.2818, with a p-value of 0.3715, indicating an insignificant negative relationship between inventory management and profitability. Although the coefficient is negative, this relationship does not have enough statistical support to be considered significant.

The model's R-squared value is 0.958991, meaning that approximately 95.9% of the variability in profitability can be explained by the working capital components in this analysis. The adjusted R-squared of 0.957061 further supports the model's robustness in explaining the dependent variable, despite adjusting for the number of predictors.

Table 2: Random effect regression analysis on the extent to which working capital components affect profitability in selected food and beverage companies in Nigeria

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.679267	1.275283	4.453341	0.0000
CAS	0.988157	0.026554	37.21362	0.0000
ACR	0.264306	0.283880	0.931048	0.3545
ACP	-7.132817	1.455161	-4.901738	0.0000
INM	-0.281788	0.313666	-0.898369	0.3715
R-squared	0.958991	Mean dependent var		12.40527
Adjusted R-squared	0.957061	S.D. dependent var		10.76621
S.E. of regression	2.230941	Sum squared resid		423.0534
F-statistic	496.9288	Durbin-Watson stat		0.586143
Prob(F-statistic)	0.000000			

Source: Researcher's Computation, 2025

Fixed effect regression analysis on the extent to which working capital components affect profitability in selected food and beverage companies in Nigeria

The fixed effect regression analysis in Table 3 assessed how different working capital components (cash, accounts receivable, accounts payable, and inventory management) affect the profitability of selected food and beverage companies in Nigeria. The constant term (C) has a coefficient of 5.3954, which is statistically significant with a p-value of 0.0003. This suggests that when all other variables are held constant, the baseline profitability is positive. For cash (CAS), the coefficient is 1.0112, and it is statistically significant with a p-value of 0.0000. This indicates a strong positive relationship between cash and profitability. Specifically, a unit increase in cash holdings leads to a 1.0112 unit increase in profitability, holding other variables constant.

The coefficient for accounts receivable (ACR) is 0.0337, but with a p-value of 0.9129, it is not statistically significant. This means that there is no strong evidence of a relationship between accounts receivable and profitability in this analysis. For accounts payable (ACP), the coefficient is -6.7121, and this relationship is statistically significant with a p-value of 0.0001. The negative coefficient suggests that an increase in accounts payable is associated with a decrease in profitability. A unit increase in accounts payable results in a 6.7121 unit decrease in profitability, holding all other factors constant. The coefficient for inventory management (INM) is -0.1642, with a p-value of 0.6393, which is not statistically significant. This suggests that inventory management does not have a significant impact on profitability in this analysis.

The model's R-squared value is 0.963359, meaning that 96.34% of the variability in profitability can be explained by the working capital components in this model. The adjusted R-squared of 0.954070, which is slightly lower, indicates that the model remains robust even when accounting for the number of predictors.

Table 3: Fixed effect regression analysis on the extent to which working capital components affect profitability in selected food and beverage companies in Nigeria

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.395441	1.429727	3.773758	0.0003
CAS	1.011160	0.028506	35.47246	0.0000
ACR	0.033737	0.307486	0.109717	0.9129
ACP	-6.712140	1.608512	-4.172888	0.0001
INM	-0.164167	0.348734	-0.470751	0.6393

R-squared	0.963359	Mean dependent var	12.40527
Adjusted R-squared	0.954070	S.D. dependent var	10.76621
S.E. of regression	2.307347	Akaike info criterion	4.695166
Sum squared resid	377.9934	Schwarz criterion	5.222904
Log likelihood	-192.2825	Hannan-Quinn criter.	4.907981
F-statistic	103.7064	Durbin-Watson stat	0.560271
Prob(F-statistic)	0.000000		

Source: Researcher's Computation, 2024

Discussion of Findings

The discussion of the findings from the pooled regression analysis, particularly the effects of working capital components (cash, accounts receivable, accounts payable, and inventory management) on profitability, can be supported by several studies in the existing literature:

The significant positive relationship between cash holdings and profitability in this study aligns with the findings of Gill, Biger, and Mathur (2020), who argue that maintaining optimal levels of liquidity helps firms meet their short-term obligations and reduces the cost of external financing, thereby enhancing profitability. Similarly, Afza and Nazir (2020) found that firms that effectively manage cash levels and avoid excessive liquidity constraints can improve profitability by investing in profitable opportunities and avoiding financial distress. This relationship suggests that cash reserves play a vital role in the smooth operation and financial health of companies, which is particularly crucial for the food and beverage sector, where liquidity is essential for day-to-day operations.

The significant negative relationship between accounts payable and profitability in this study is consistent with the findings of Deloof (2023), who argued that delaying payments to suppliers could harm profitability because it can lead to strained supplier relationships and higher costs for materials and services. Padachi (2020) also highlighted that while accounts payable might provide a source of short-term financing, excessive reliance on trade credit may ultimately be harmful, leading to increased borrowing costs or loss of supplier goodwill. This negative impact suggests that while companies can use accounts payable as a form of credit, overextending these payments can harm operational efficiency and result in lower profitability.

The positive but statistically insignificant relationship between accounts receivable and profitability in this study could reflect the mixed evidence in the literature regarding the impact of receivables management. Lazaridis and Tryfonidis (2006) showed that efficient management of accounts receivable can improve profitability by ensuring timely collections and reducing the risk of bad debts. However, Deloof (2003) noted that granting excessive credit to customers may increase sales but also result in higher costs associated with managing receivables. The insignificant result in this study may suggest that the food and beverage companies in Nigeria have a relatively efficient receivables management system in place, leading to a minimal variation in its impact on profitability.

The negative but insignificant relationship between inventory management and profitability in this study is supported by Chakraborty (2018), who found that excessive inventory levels could lead to increased storage costs, wastage, and depreciation, particularly in sectors like food and beverages where goods have a shorter shelf life. This aligns with Gill, Biger, and Mathur (2020), who also noted that holding large amounts of inventory ties up valuable working capital and can reduce profitability. However, Padachi (2021) noted that efficient inventory management practices could improve profitability by reducing stockouts and optimizing the production process. In this case, the negative but insignificant relationship suggests that while inventory management plays a role, other factors may be more critical in determining profitability in this specific industry context.

These findings provide a comprehensive view of how working capital components impact profitability, with strong support from the literature indicating that effective management of cash and trade credit can significantly influence a firm's financial success.

Conclusion and Recommendations

Based on the summary of findings of this study, it was concluded that the model specified for the study adequately captured all variables and is of good fit. Moreso, there is significant relationship between working capital components and profitability of selected food and beverage companies in Nigeria**.** The Food and beverage companies should aim for an efficient inventory system that minimizes holding costs, reduces waste (particularly in perishable goods), and ensures stock levels are aligned with demand. Implementing just-in-time inventory systems or similar strategies can be beneficial. Food and beverage companies should ensure that accounts receivable are collected efficiently, though this variable does not appear to have a significant impact on profitability in this study.

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