

The significance of working capital management in determining firm profitability: Evidence from developing economies in Africa

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Abstract

Purpose

The purpose of this study is to examine the relationship between working capital efficiency and corporate profitability and in particular, to determine their significance across countries with differential industrial levels.

Design

The paper adopts a quantitative approach using balanced panel data of manufacturing firms in Egypt, Kenya, Nigeria and South Africa. We accessed financial statements of manufacturing firms from the Orbis database for the period 2005–2009. The database is known to be reliable and has universal acceptability.

Findings

The study reveals that there is a strong negative relationship between profitability, measured through net operating profit, and cash conversion cycles across different industrialisation typologies. The negative association implies that, when the cash conversion cycle increases, the profitability of the firm declines.

Practical implications

Managers can create positive value for shareholders by reducing the days customers settle their accounts, ensuring that they sell off their inventories as quickly as possible and delaying the payments to their suppliers, as long as this does not affect their credit rating.

Originality

To the best of our knowledge, this is the first paper to provide a fresh perspective on how working capital management influences profitability across Africa within different typologies.