The Impact of Cash Conversion Cycle on Firm's Profitability: Evidence from Sri Lankan Listed Food, Beverage and Tobacco Companies

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Abstract

Working capital management is essential to business survival and growth in the current competitive business world. Simultaneously, it helps a firm to increase its profitability. However, the finding related to this association is still debatable due to the agreed findingis unavailable. One of the ways in assessing working capital management is the cash conversion cycle. Based on that, the present study investigates the relationship between the cash conversion cycle and firm profitability. Consequently, inventory turnover period, receivable turnover period, and payable turnover period have been used as the measurements of the independent variable where profitability was used as the dependent variable of this study. The profitability was measured via return on assets and return on equity. For the analysis, the researchers selected fourteen food, beverage and tobacco companies listed in the Colombo Stock Exchange. The data of the study were collected from annual reports of financial years from 2014/2015 to 2019/2020. Correlation and regression analyses were used to find out the impact of the cash conversion cycle on profitability. Analysis results indicated that the inventory turnover period has a negative significant impact on profitability. However, the receivable turnover period and payable turnover period did not indicate an impact on profitability. The finding reveals that when the inventory turnover period increases, the profitability of the company decreases. Further, it reported that the overall cash conversion cycle negatively impacts the profitability of food, beverage and tobacco companies in Sri Lanka. Therefore, the managers can earn profits for their companies by handling the cash conversion cycle correctly while keeping each component to an optimum level.

Keywords: Cash conversion cycle, profitability, working capital management