THE RELATIONSHIP OF CASH CONVERSION CYCLE AND FIRM'S PROFITABILITY: AN EMPIRICAL INVESTIGATION OF PAKISTANI FIRMS

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ABSTRACT

Purpose – The objective of the study is to empirically examine the impact of Cash conversion cycle(CCC) onthe performance of Pakistanimanufacturing firms.

Design/methodology/approach – The study uses the sample of 32 companies selected randomly from three manufacturing sectors i.e. chemical, automobiles and construction & material for the period five years ranging from 2006 to 2010. The correlation and regression analysis are used to examine the relationship of CCC with firm's performance: Return on Assets (ROA), Return on Equity (ROE) and Operating Profit (EBIT).

Findings – The study examines the impact of different variables of cash conversion cycle on firm's performance. The study finds that the average collection period of accounts receivables, inventory conversion period and CCC have negative relationship with firm's performance.

Originality/value–Most of the studies on working capital management (WCM) are with reference to developed economies like USA but fewer are with reference to developing economies like Pakistan. This study will contribute to the literature by analyzing the impact of working capital management on the performance of manufacturing firms and by validating the results of previous studies.

KEYWORDS: Cash Conversion Cycle, Firm Performance.