Cash conversion cycle and financial performance of Sri Lankan firms

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Abstract

Cash conversion (i.e., liquidity) and financial performance (i.e., profitability) and the balance between both is challenging decisions while conducting a firm day to day operation. The purpose of this paper is to investigate the relation between the length of the cash conversion cycle and financial performance for a sample of listed firms on a Colombo Stock Exchange (CSE). This study is based on secondary data of 100 listed firms, pertaining to a period of five (2014-2018) years. The cash conversion cycle as an independent variable is calculated as the number of days of accounts receivable plus the number of days of accounts inventories minus number of days of accounts' payable. Whereas, the financial performance is measured by return on assets. Accordingly, the firms with shorter cash conversion cycles are more likely to be highest financial performance than firms with longer cash conversion cycles which suggests that there exists an optimal level of investment in current assets that balances costs and benefits and maximizes financial performance. These results suggest that managers of the Sri Lankan firms can improve the financial performance of their firms by shortening the cash conversion cycle. Cash conversion cycle should be the concern of firms from different size levels and industry where managers can increase the financial performance of their firms by shortening the cash conversion cycle.

Keywords: *Cash conversion cycle, Colombo Stock Exchange, financial performance.*