

ABSTRACT

Cash is the life blood of any business as without it businesses cannot survive and/or grow. The proper utilization of cash resources and management of cash cycle is very crucial for any business. The present study is conducted to analyze the relationship between cash conversion cycle (cash conversion cycle) and the firm's profitability and between cash conversion cycle and corporate value of the business. The relationship is also conducted between individual components of CCC, ROA and TBQ. To investigate the relationship a sample of fifty nine firms is selected from different manufacturing industries including cement industry, textile, chemical, engineering, fuel and energy and sugar industry, which are listed at Karachi Stock Exchange. The data is collected on quarterly basis for the period of three years from 2008 to 2010. The analysis is conducted in two stages: firstly an industry-wise analysis is conducted in which the relationship between CCC and ROA and between CCC and TBQ is analyzed to each industry separately. This is done to investigate that whether the relationship between CCC, ROA and TBQ varies industry to industry or not. Then a general analysis is performed, by combining the data of all the industries, to examine a general relationship between the variables. The GMM estimation technique is used to analyze the data. The results indicate that the relationship between CCC, ROA and TBQ varies industry to industry because in some industries there exist positive relationship between CCC and ROA and between CCC and TBQ while in other industries the relationship between two is found to be negatively associated. The general analysis showed that there exist negative relationship between CCC and ROA and between CCC and TBQ but this general relationship is insignificant. The reason of being insignificant of general relationship between the variables is that the individual industries are differently associated with the firms. On the basis of these findings it is suggested to the managers that they must study how the cash conversion cycle affects the profitability and corporate value and then they should manage the cash cycle accordingly to increase the shareholders wealth.