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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

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   APPENDIX/ANNEXURE

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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

IMPACT OF CASH CONVERSION CYCLE ON PROFITABILITY OF LISTED HOTELS AND TRAVELS COMPANIES IN SRI LANKA

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ABSTRACT

The cash conversion cycle (CCC or Operating Cycle) is the length of time between a firm's purchase of inventory and the receipt of cash from accounts receivable. It is the time required for a business to turn purchases into cash receipts from customers. Cash conversion cycle (CCC) has been considered a useful measure of firm's effective working capital management. The objective of the study is to investigate the impact of Cash conversion cycle on the performance of listed hotels and travels companies in Sri Lanka. The study used the sample of 10 companies selected randomly from hotels and travels sectors for the period of five years ranging from 2008 to 2012. The correlation and regression analyses were used to examine the relationship of CCC with performance of the firms: Return on Assets (ROA), Return on Equity (ROE) and Net profit margin. The study found that the Cash conversion cycle (CCC) is having significantly negative association with firm's performance. Many 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 Sri Lanka. This study will contribute to the literature by analyzing the impact of working capital management on the performance of hotels and travels companies by validating the results of previous studies stated in the literature.

KEYWORDS
Cash Conversion Cycle, Net profit, Return on assets and Return on equity.

INTRODUCTION
Firm in business; because of its effect on firms' profitability as well on liquidity; Working capital management is about the management of current assets and current liabilities, in such a way that a satisfactory level of working capital which maximizes the profits of the firm is maintained. The working capital is considered as the life blood of a firm (Scherr, 1989). And cash conversion cycle is the primary measure of working capital efficiency It measures the time it takes to convert cash into cash again from the time when inventory is bought till the time inventory is sold and the bills are recovered (Padachi, 2006). Therefore the cash conversion cycle points out how the firms are performing and supports, thus, managers to understand the capacities where the company has room for improvement (Muscettola, 2014).

Cash conversion cycle is a very important component of hotels and travels in Sri Lanka. Now days, tourism is major part in the hotels and travel sector. It is also the important way for earning the foreign income, because Sri Lanka is beautiful country as it is surrounded the natural wonderful places. The explorer Marco Polo of the 12th century wrote that Sri Lanka is the finest island in the whole world. For centuries it had been a great tourism destination particularly for European travelers. However the 30-year-long internal conflict had a negative impact on tourism and the growth of the industry stagnated. However, after the end of the conflict in 2009 the country's tourism prospects look promising. In 2012, post office worldwide holiday costs barometer named Sri Lanka as the best valued destination for holidays. There are many tourists' attraction places in Sri Lanka. Some of them are sigiriya rock, interesting waterfalls, daladha maligawa, Adam's peak or footprint, kathirgama temple and several natural places and so on.

After the end of the local war or critical situation, visitors who are at any corner of the world come and see these places. For this purpose, infrastructures are important to attract the tourists. They are transportation, water supply, electricity, hotels, etc. Hotels and travels business is one of the important to stay and travel to different places. Hotels and travels are increasing their activities and value in Sri Lanka. Therefore the listed hotels and travels companies have been selected for purpose of the research.

The main aim of this paper is to identify the relationship between cash conversion cycle and profitability of listed hotels and travels in Sri Lanka. Several studies have tested the hypothesis of finding relationship between cash conversion cycle and profitability. However, very few studies have been conducted in context of listed hotels and travels companies in Sri Lanka. The organization of this paper is as follows. The next section provides literature review and development of hypothesis. The fourth section describes the methodology used. Further section discusses the results. Finally, the last section concludes the results and concludes the discussion.

LITERATURE REVIEW
Earlier literature has examined the relationship of accounts payable management, accounts receivables management, inventory management and cash conversion cycle management with profitability management, providing with different results as per how the length of cash conversion cycle has been affecting profitability.

Shin and Soenen (1998), then, found significant effects from efficient cash cycle conversion management on profitability and liquidity of firms. Deloof (2003) examined relationship of working capital management and profitability for a sample consisting of 1009 non-financial Belgian companies during 1992-1996. He used CCC as a comprehensive measure of working capital management and gross profit as the profitability measure. His findings did not confirm presence of a significant relationship between profitability and CCC, and indicated a significant negative association between accounts receivable collection period, inventory glow cycle, and payment period. Padachi (2006) found that if the firm is invested higher in the inventories then the optimum level will diminish and profit will go down. Hutchison et al. (2007) observed significant association of cash conversion cycle with the return on investments of the companies. They suggested an inverse relationship between profitability and cash conversion cycle.

Luo et al. (2009) confirmed that if the value of the firm enhances the cash conversion cycle will decline. Uyar (2009) also found significant association and linkage of working capital management with liquidity and profitability. He establishes that the size of a firm is negatively correlated to cash conversion cycle and a negative moving linkage of cash conversion cycle with firm's earnings was remarked. Gill et al. (2010), for a sample of 88 US firms listed on the New York Stock Exchange, using data from 2005–2007, find no statistically significant relationship between average payable days and profitability and also between average inventory days and firm profitability. They observe no significant relationship between firm size and profitability but notice a negative association between accounts receivable and profitability.

Dong and Su (2010) observed significant association of cash conversion cycle with the return on investments of the companies. Sharma and Kumar (2010) found that in Indian firm length of cash cycle and profitability have positive relationship between them. Randall and Farris (2010) argued that by implementing a collaborative cash to cash management cycle by adopting weighted average cost of capital will increase the profitability. Nimalthasana (2010) has done a study using the manufacturing companies in CSE to identify the effect of WCM on profitability. He has found out a negative relationship between cash conversion cycle and profitability; a positive relationship between the inventory conversion period and profitability. Johnson and Templar (2011) stated that return on capital employed and length of cash cycle would be enhanced by change of proxy.

Ebaid (2011) confirms that the current cash flows have significant and direct impact to develop the profitability of the firms. Kaddumi and Ramadan (2012) conducted a study to assess the effect of WCM on the performance in Jordanian Industrial corporations listed at Amman Stock Exchange. They explained that the negative relationship of average collection period, average age of inventory with profitability. Tharshiga Murugesu (2013) analyzed effect of Cash Conversion Cycle on Profitability of Listed Plantation Companies in Sri Lanka. This study was used panel data of 10 firms, for the period of 2008-2012. The results of regression analysis provide a negative significant relationship between cash conversion cycle and firm profitability. This reveals that reducing cash conversion period results to profitability increase.

T.A.N.R. Jayarathne (2014) had an attempt to study the relationship between profitability and cash conversion cycle in listed manufacturing firms in Sri Lanka. The findings suggest that the profitability is negatively associated with the account receivable period, inventory turnover period, and cash conversion cycle. Further, it was found that the profitability is positively associated with account payable period.

STATEMENT OF THE PROBLEM

The main focus of the research is to identify the effective cash conversion cycle management of the listed hotels and travels companies in Sri Lanka through comparing the companies' details or information regarding the cash conversion cycle management. Generally most of the firms keep their attention almost with the short term financing sources and specially concern about their working capital management. Therefore in this study we want to investigate the effects of cash conversion cycle on profitability of Sri Lanka companies. Therefore the problem would be.

- Is cash conversion cycle of the companies maintained effectively?
- Is there any relationship between cash conversion cycle and profitability?
- "Does cash conversion cycle affect the profitability?

Other factor is the cost structure. Companies focus on cutting down their cost and to achieve the profitability with the bad economic conditions. Therefore it is important to identify

- "How much the companies' cost structure affects to its profitability".

Here cost structure means the administrative cost, selling and distribution cost and finance cost of the companies.

OBJECTIVES OF THE STUDY

This research will attempt to find out some aspects of the listed hotels and travels companies.

- To identify the relationship between cash conversion cycle and profitability of the listed hotels and travels companies in Sri Lanka.
- To find out the effects of different components of cash conversion cycle on profitability.
- To examine impact of account receivable days, inventory days and cash conversion cycle on return on total assets, return on equity and Net profit margin.

METHODOLOGY

The aim of the study is to test the impact of cash conversion cycle on profitability. The design of the methodology is based on prior research into these relationships. This section describes the method of data collection, the variables used to test the hypothesis and statistical techniques employed to report the results. The regression models utilized to test the relationship between the determines of cash conversion cycle (CCC) such as Average receivable collection period (ARCP), Average conversion inventory period (ACIP) and Average payment period (APP) and profitability such as Return on assets (ROA), Return on equity (ROE) and Net profit margin (NPM) are as follows.

$ROE = \alpha + \beta\ ccc + \varepsilon$ (1)

$ROA = \alpha + \beta\ ccc + \varepsilon$ (2)

$NPM = \alpha + \beta\ ccc + \varepsilon$ (3)

DATA COLLECTION

This study is based on secondary quantitative data and the data related to cash conversion cycle and profitability is collected for the period of 5 years starting from 2008 to 2012 using the annual reports of the selected companies which have been listed in CSE. Further, the data is obtained from the annual handbook published by CSE and its web site (www.cse.lk).

SAMPLING

The Colombo Stock Exchange (CSE) has 293 companies representing 20 business sectors as at 31st March 2014. Hotels and travels sector is selected from them for this research. The population of the research is 41 hotels and travels companies. But only 10 companies are selected as the sample.

CONCEPTUAL FRAME WORK

Conceptual frame work of this study is formulated as follows.

FIGURE 1: CONCEPTUALIZATION MODEL

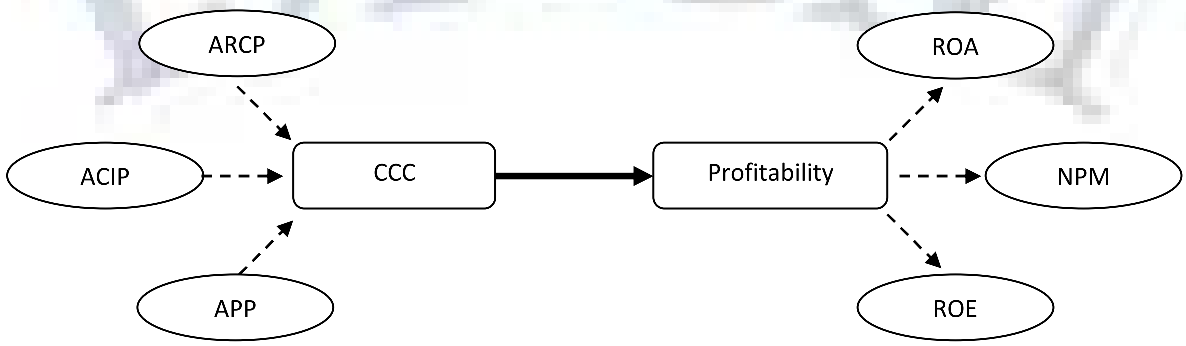

Figure 1 shows the relationship between the determinants of cash conversion cycle and profitability.

TABLE 1: MEASUREMENT OF VARIABLES

Variables	Abbreviation	Measurements
Dependent variables		
Return on Assets	ROA	Net income/Total Assets
Return on Equity	ROE	Net income / Shareholder Equity
Net profit margin	NPM	Net profit / sales
Independent variables		
Average receivable collection period	ARCP	Account receivables * 365 / Sales
Average conversion inventory period	ACIP	Inventory * 365 / Cost of Sales
Average payment period	APP	Account payables * 365 / Cost of sales
Cash conversion cycle	CCC	CCC = ARCP + ACIP + APP

HYPOTHESES

The following are the hypotheses formulated;

H_1: There is a significant relationship between cash conversion cycle and profitability.

H_2: There is a significant impact of cash conversion cycle on firm's profitability.

ANALYSIS AND INTERPRETATION

The descriptive analysis represents the minimum, maximum, average and standard deviation of the variables used in the study is as follows.

TABLE 2: DESCRIPTIVE STATISTICS

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	50	-.12	.22	.0381	.06626
ROE	50	-.59	.29	.0239	.13544
NPM	50	-2.22	2.44	.1916	.56210
CCC	50	-1237.91	73.78	-149.2888	226.67661
Valid N (list wise)	50				

Table 2 shows descriptive statistics, Independent variable indicates cash conversion cycle. Dependent variables are Return on assets, Return on equity and net profit margin. The descriptive statistics, data are well set, further standard deviation of cash conversion cycle is more than other variables. Maximum and mean of ROA and ROE are in the same level approximately among all the listed hotels and travels companies in Sri Lanka

TABLE 3: CORRELATION MATRIX

		ROA	ROE	NPM	CCC
ROA	Pearson Correlation	1	.857**	.692**	-.359**
	Sig. (2-tailed)		.000	.000	.002
ROE	Pearson Correlation	.857**	1	.650**	-.424**
	Sig. (2-tailed)	.000		.000	.001
NPM	Pearson Correlation	.692**	.650**	1	-.365**
	Sig. (2-tailed)	.000	.000		.000
CCC	Pearson Correlation	-.359**	-.424**	-.365**	1
	Sig. (2-tailed)	.002	.001	.000	
**. Correlation is significant at the 0.01 level (2-tailed).					

According to the Pearson's correlation in Table 3, the determinants of profitability such as return on assets, return on equity and net profit margin are significantly correlated with cash conversion cycle. Cash conversion cycle has negative relationship between ROE, ROA and NPM (r = -.359**, r = -.424** and r = -.365** respectively) at 0.01 significant level. It means companies are still properly practiced working capital management.

REGRESSION ANALYSIS

The regression analysis was formulated to identify the impact of cash conversion cycle on profitability. The results of the analysis are given in Table 4, 5 & 6.

TABLE 4: REGRESSION ANALYSIS BETWEEN ROA AND CCC

Model		Unstandardized Coefficients		Standardized Coefficients	t	R^2	Sig.
		B	Std. Error	Beta			
1	(Constant)	.054	.007		7.216		.000
	CCC	-.000	.000	-.359	-3.809	.129	.002
a. Dependent Variable: ROA							

The results of regression analysis in the Table 4 shows, that 12.9 % of cash conversion cycle impacts on return on assets. It is indicated by R^2 = 0.129. There is significant negative relationship between cash conversion cycle and return on assets. The negative value of beta (-0.359) was significant ($p < 0.01$). This result is in accordance with the findings of Uyar (2009) and Azam&Haider (2011) who found a negative and significant relationship between the length of CCC and Firms' profitability ROA.

TABLE 5: REGRESSION ANALYSIS BETWEEN ROE AND CCC

Model		Unstandardized Coefficients		Standardized Coefficients	t	R^2	Sig.
		B	Std. Error	Beta			
1	(Constant)	.062	.015		4.173		.000
	CCC	-.000	.000	-.424	-4.630	.179	.001
a. Dependent Variable: ROE							

The results of regression given in Table 5 are negative and significant relationship between the CCC and ROE. P value is less than 0.01. This is consistent with the study of Azam&Haider (2011) who also found a significant and negative relationship between the length of CCC and ROE. Further 17.9% of cash conversion cycle impacts on return on equity.

TABLE 6: REGRESSION ANALYSIS BETWEEN NPM AND CCC

Model		Unstandardized Coefficients		Standardized Coefficients	t	R^2	Sig.
		B	Std. Error	Beta			
1	(Constant)	.327	.063		5.177		.000
	CCC	-.001	.000	-.365	-3.877	.133	.000
a. Dependent Variable: NPM							

In the above, Table 6 regression model, the net profit margin is used as a dependent variable. The co-efficient on the cash conversion cycle is negative and significant. This suggests that decrease in the number of day cash conversion cycle is associated with an increase in profitability. The negative and significant relationship is consistent to Tharshiga Murugesu (2013) study. The R^2 of above regression model is 0.133. Net profit margin is reduced by lengthening the CCC.
Hypothesis 1 (H_1) & 2 (H_2) stated that there is a significant relationship between cash conversion cycle and profitability and there is a significant impact of cash conversion cycle on firm's profitability respectively. According to the Pearson's correlation and regression analysis, the above hypotheses were accepted.

CONCLUSION
This Study investigates the impact of Cash conversion cycle on firms' profitability for hotels and travels companies listed in Colombo stock exchange in Sri Lanka. Data have been analyzed by applying Pearson correlation and regression for the time period of 2008 to 2012 that represents the mean values of CCC. Results show that there is negative relationship between return on assets and cash conversion cycle.12.9%. And also cash conversion cycle had impact on Return on equity. In here 17.9 % associated by CCC. In addition cash conversion cycle had 13.3 % negative impact on net profit.
The overall results in this study based on test of the hypotheses are negative and significant relationship between CCC and profitability. It is consistent with the previous theoretical researches such as Azam & Haider (2011), Gill et al, (2010), Raheman et al. (2010), Uyar (2009) and Raheman and Nasir (2007). It gives the message to the firms that the longer CCC is, the less profitable you are.

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