EFFECT OF CASH CONVERSION CYCLE (CCC) PERIOD ON THE PROFITABILITY OF SELECTED FOOD AND BEVERAGE COMPANIES IN NIGERIA

OBALEMO Augustine Olorunfemi, OPUSUNJU, Michael Isaac, Ph.D., JIYA, N. Santeli, Ph.D.

Department of Business Administration Nile University of Nigeria, Abuja,
Department of Business Administration Nasarawa State University, Keffi,
Department of Business Administration Nile University of Nigeria,

IJMSSSR 2020
VOLUME 2
ISSUE 2 MARCH – APRIL
ISSN: 2582-0265

Abstract: The study examined the effect of the cash conversion cycle (CCC) period on the profitability of selected food and beverage companies in Nigeria. The study used five years period from 2014 to 2018. The study adopted the ex-post facto research design. The population is 43 food and beverage companies listed on the Nigerian stock exchange during the period of study. The study uses judgmental sampling techniques to select the sample based on the following criteria and the sample size is ten (10) food and beverage firms in Nigeria. The study used panel regression and analyzed the data using an e-view statistical package of 9.00. The findings indicate that the Cash Conversion Cycle (CCC) has a significant negative relationship with profitability (measured by ROA). The study also recommended that managers should pay more attention to proper inventory management. This may be achieved by setting certain standards that will help to maintain inventory at the optimal level.

Keywords: cash conversion cycle (CCC), profitability and Return on Asset

Introduction

Organizations frequently considered the adequate numbers of days it will take them to convert sales to cash. The period may affect the profitability of such organizations in terms of return on asset. The ability of firms to ascertain the days of sales of inventory or stock which is the management of cash to realized effective profitability in terms of return on asset. Firm has the ability to continue operating with sufficient cash flow for payment of both maturing short-term debt and impending operational expenses. Consequently, it involves crucial decisions on multiple aspects, including managing accounts payable and receivable, preserving a certain level of inventories and the investment of accessible cash.

Over the years, beverage companies such as PZ-Cussons Nig. Plc, flour mills Nig. Plc, Nascon Allied Ind. Plc, Nigerian Breweries Plc, Cadbury Nig. Plc, Nestle Nig, Plc, Unilever Nig. Plc, Honeywell Flour Mill Plc, Guinness Nig. Plc, Dangote Sugar Refinery Plc used cash conversion cycle effectively to increase profitability in terms of return on asset. Yet there return on asset is very low.

From extant literature, studies such as Tharshiga (2013); Çam and Özbek (2015); Murtala and Sani (2016); Musa and Norhani (2017); Chuke, Elias and Ibe-Lamberts (2018); Nguyen and Sundaresan (2018); Sugathadasa (2018) and Kabiru, Aliyu and Usman (2019) studied the variables in Thailand, Sir Lanka and Nigeria using organizations such as manufacturing firms, small and medium scale enterprises, information and communication technology firms and insurance firms. None of the studied from the empirical studies reviewed used PZ-Cussons Nig. Plc, flour mills Nig. Plc, Nascon Allied Ind. Plc, Nigerian Breweries Plc, Cadbury Nig. Plc, Nestle Nig, Plc, Unilever Nig. Plc, Honeywell Flour Mill Plc, Guinness Nig. Plc, Dangote Sugar Refinery Plc to studied the variables. None of the studied reviewed food and beverage firms in Nigeria with a period that included 2018.

The objective of this study is to examine the effect of cash conversion cycle (CCC) period on the profitability of selected food and beverage companies in Nigeria. The specific objective is to determine the effect of cash conversion cycle (CCC) period on the return on asset (ROA) of selected food and beverage companies in Nigeria. The scope of this study is restricted to the effect of cash conversion cycle (CCC) period on the profitability of selected food and beverage companies in Nigeria. The period of study is five year spanning from 2014 to 2018. The reason for this period is that it is current. Also, during this period Food and beverages organizations were so
taken into consideration since they play a very important role in the Nigerian economy.

The hypothesis is stated below

H01: cash conversion cycle (CCC) period has no significant effect on return on asset (ROA) of selected food and beverage companies in Nigeria.

Concept of Cash conversion cycle (CCC)

Cash conversion cycle (CCC) means the whole yardstick of assessing the level of utilization of working capital in an organization. It can be described as the total number of days of sales outstanding (which is also termed average collection period) and the period of sales in days of inventory (also called inventory less period of payable in days outstanding ( termed average payable period). Cash conversion cycle is a vital tool of cash management that requires much fund to be afloat and the means of maintaining the good financial condition to repay the fund utilized (Elizalde, 2003). Angahar and Alematu (2014) consider CCC as the calculation of the period it will take between payment and collection of cash. They maintained that CCC is the period of time, in days, that it takes for the cash to be collected after sales, determined from the time the firm finally made payment for goods. Dong and Su (2010) opine that even though a firm can make loss within different accounting periods, it cannot continue to persistently operate with inefficient CCC management. Similarly, ICAN (2014) describe the cycle as the average period between payment to creditors in exchange for inventories and services delivered and cash receipt from customers for resale of the supplies or services. ICAN (2014) also enumerated the three main elements in the cash conversion cycle as: The mean period that inventory is held before it is used or sold; the average credit period taken from creditors and the mean length of credit time taken by (or given to) account receivables.

Cash conversion cycle is a very important component of working capital management and financial management because it directly affects the liquidity and profitability of the company. It deals with current assets and current liabilities. The traditional link between the cash conversion cycle and the firm's profitability is that shortening the cash conversion cycle increases firm's profitability (Mohamed, 2013).

Cash conversion cycle also known as cash cycle is a measure of the time between cash disbursement and cash collection. It is simply the number of days that passes before collection of cash from sales, measured from when organizations actually pay for inventories. It can be expressed as accounts receivable period plus inventory period less accounts payable, multiplied by 365 then divided by cost of sales.

Cash conversion cycle is determined from the time taken to purchase raw materials, through manufacturing until collecting money from sale of goods on account (Besly, 2000). The CCC is measured by deducting the payment deferral period made to suppliers from the total of inventory conversion period and receivables collection period (Yucel & Kurt, 2002). Payment deferral period (payment cycle) is the time a firm takes for raw materials to be ordered, received and paid for. Inventory conversion period (production cycle) is the time it takes to manufacture and sell its inventory. Receivables collection period (cash collection cycle) is the length of time a firm needs to collect the money from its credit sales.

Concept of Profitability

Profitability is generally defined as “an organization’s ability to earn financial profit or gain” (Tauringana & Afrifa, 2013). The success and growth of any business substantially depend on its profitability (Onwumere, Ibe & Ugbam, 2012). Here, one can deduce that the long-term survival of a firm is very much dependent on its profitability. A firm’s net profit is the difference between the revenue and all its operating expenses (Oladipupo & Okafor, 2013). The key goal of any commercial entity is profit (Al-Debi‘e, 2011). The main point here is that, without making a profit, the business is likely to collapse at some point (Tauringana & Afrifa, 2013).

Return on Asset

Return on Asset (ROA) is an important financial performance ratio because it measures the efficiency with which the firm is managing its investment in assets and using them to generate profit.
According Prastowo (2002), Return on Assets (ROA) is used to measure the effectiveness of the company in generating profits by exploit in its assets. This ratio may give an indication of good or bad neighbor management in implementing cost control or management of his property. Brigham (2001), Return on Assets (ROA) is often used as a tool to measure the rate of return on total assets after interest expense and taxes.

**Empirical Studies**

Chuke, Elias and Ibe-Lamberts (2018) investigated the effect of CCC on the return on assets (ROA) of selected Nigerian quoted insurance firms for the period (2000–2011). The ROA is used as a measure of profitability. Data were collected from the annual financial reports of sampled insurance companies. Multiple regression technique was used in analyzing the model for testing the hypotheses. ROA was used as the dependent variable. While CCC was presented as the explanatory variable, current ratio, debt asset ratio, fixed financial total asset ratio, Growth and Size were all incorporated in the model as control variables. The results indicated that CCC had negative and significant effect on profitability.

Murtala and Sani (2016) empirically found the effect of cash conversion cycle on corporate profitability of the ICT firms listed on the floor of the Nigerian Stock Exchange. Data are collected from all the listed firms from 2010 to 2014. The data are analyzed using multiple linear regression analysis and the robustness check shows that the data are normal. The findings indicate significant positive relationship between cash conversion cycle and corporate profitability.

Sugathadasa (2018) examined the relationship between cash conversion cycle and profitability of manufacturing sector organizations listed in Colombo Stock Exchange. As a proxy of independent variables inventory conversion period, debtor conversion period and creditor conversion period combined to derive the cash conversion cycle (CCC) while profitability which deemed to be the independent variables measured through return on assets (ROA) and return on equity (ROE). The study gathered data for 5 years period starting from 2013 to 2017 for 10 listed companies which are operating in manufacturing electrical appliances by using stratified sampling method. Regression Analysis was conducted to test the hypothesis under two linear multiple regression models. Findings of this study highlighted that positive correlation between inventory conversion period and receivable conversion period while negative correlation between payable conversion periods on ROA while negative correlation between all the components of cash conversion cycle and ROE as the measures of profitability. Moreover at regression results, inventory conversion period is having significant positive relationship while receivable conversion period is having significant negative relationship and payable conversion period considered to be having a negative but insignificant relationship on firm’s profitability at listed manufacturing sector in Sri Lanka.

Nguyen and Sundaresan (2018) investigated the relationship between cash conversion cycle and profitability that exists in the agriculture and food industries in Thailand. It specifically aims to examine the influence of production cycle, cash collection cycle, and cash payment cycle on profitability. In addition, it also aims to measure the influence of control variables such as size and debt ratios have on profitability. The study analysed the data of 34 listed companies in agriculture and food industry in the Stock Exchange of Thailand from 2009 to 2013. Pearson’s correlation and the regression analysis approach were used to examine the relationship between cash conversion cycle and profitability. The results indicate that cash conversion cycle (CCC) has a significant inverse relationship with profitability in the agriculture and food companies in Thailand. Further, production cycle and debt ratio were found to have a significant negative relationship with return on assets (ROA) while payment cycle and size have a positive relationship with return on equity (ROE). No significant relationship was found between cash collection cycle and profitability.

Musa and Norhansi (2017) investigate the relationship between cash conversion cycle and firm performance of small and medium-sized entities (SMEs) in Nigeria. SMEs are potentials for Nigerian economy growth; contributing to gross domestic product, employment generation, poverty reduction and industrialization. The study employed the panel data regression analysis using financial data from a sample of 311 Nigerian SMEs for the period 2007–2013. The findings of the study revealed a negative association between cash conversion cycle, inventory holding period and accounts payable period with SMEs profitability; and a statistically significant negative relationship between accounts receivable period and SMEs’ profitability. The findings also found a significant positive relationship between firm size, leverage, growth opportunities and firm age and SMEs’ profitability. Thus, the result of the study indicates that Nigerian SMEs with a shorter cash conversion cycle and
Çam and Özbek (2015) examine the effect of cash conversion cycle which is used to evaluate the effectiveness of working capital management on profitability of firms. With this aim, data set between 2009 and 2013 from 19 firms in Gümüşhane city in Turkey working in the fields of fruit leather and churchkhela production have been used. According to the results of panel data analysis results, there is a positive effect of cash conversion cycle on profitability of firms.

Tharshiga (2013) examined the effect of cash conversion cycle on profitability in ten listed plantation companies in Sri Lanka between 2008 and 2012. Results revealed that there is negative relationship between return on equity and cash conversion cycle. 48.5 percent variation of ROE explained by CCC. Further Cash conversion cycle also had negative impact on Return on asset. In here 61.6 % explained by CCC. In addition cash conversion cycle had 60.2 % negative impact on net profit. Therefore the effect of cash conversion cycle on total profitability as whole contains significant value.

Kabiru, Aliyu and Usman (2019) examined the impact of cash conversion cycle on the profitability (ROE and ROA) of listed cement companies in Nigeria. Panel data were extracted from the annual report and accounts of the companies for the period 2008-2017 and are analyzed using descriptive statistics, correlation and multiple regression technique via STATA 13.0 software. Findings from the study revealed that cash conversion cycle has negative significant relation with return on equity whereby positive significant relationship where found with return on Assets.

Theoretical Framework

Cash conversion cycle theory was selected because of the brilliant findings and recommendation made by Richards and Laughlin (1980). In their work, Richards and Laughlin saw the need to have a critical look at working capital management and its individual components. They felt, that, although a substantial portion of financial manager’s time is spent on decision relating short-term assets and liabilities, little attention has been given by most of the literature and researchers in this direction.

Accordingly, they describe the receivables, inventories and payables as the constituents of the cash conversion cycle model. The theory of the cash conversion cycle centers on explaining a cycle that begins from the payment for the purchase of raw materials, through to its transformation and the emergence of new product, to the collection of receivables from the buyers and possible debtors of the interaction as a result of the stock sale. Undoubtedly, financial managers and all related financial analysts appreciate at least at an intuitive level that all working capital investments do not have the same life expectancy, and their transformation rate to usable flows of liquidity is always not at the same speed (Richard & Laughlin, 2008).

The firm’s ongoing liquidity is a function of its cash conversion cycle, hence the appropriateness of evaluation by cash conversion cycle, rather than liquidity measures. According to Arnold (2008) the shorter the CCC, the fewer are the resources needed by the company. So the longer the cycle the higher will be the investment in the working capital. But also a longer cycle could increase sales, which could lead to higher profitability. But this longer cycle will also lead to higher investment and could rise faster than the benefits of the higher profitability. Cash conversion cycle (CCC) is a formula in management accounting that measures its how efficiently a company’s managers are managing its working capital. The CCC measures the length of time between a company’s purchase of inventory and the receipts of cash from its account receivable, the CCC is used by management to see how long a company’s cash remains tied in its operations.

\[
\text{CCC} = \text{DIO} + \text{DSO} - \text{DPO}
\]

Where:
CCC = Cash conversion cycle
DIO = Days inventory outstanding, the average number of days the company holds its inventory
DSO = Days sales outstanding, the number of days of average sales the company currently has
DPO = Days payable outstanding, the ratio indicating an average number of days the company takes to pay its bill.
When a company or its management takes an extended period of time to collect outstanding accounts receivable, has too much inventory on hand or pays its expenses too quickly, it lengthens the CCC. A longer CCC means it takes a longer time to generate cash, which means insolvency for small companies. Cash conversion cycle is most apt for this study, hence its adoption.

Methodology

The study adopted ex-post facto research design and the population is 43 food and beverages companies listed on the Nigerian stock exchange during the period of study. The study uses judgmental sampling techniques to select the sample based on the following criteria: Companies must remain listed on the Nigerian Stock Exchange (NSE) during the 2014 – 2018 periods. Companies must have complete financial statements for the period under review and companies must be operational within the period under investigation. Ten (10) food and beverage companies met the criteria set out and are good representatives of the sector. The ten Companies selected are PZ-Cussons Nig. Plc, flour mills Nig. Plc, Nascon Allied Ind. Plc, Nigerian Breweries Plc, Cadbury Nig. Plc, Nestle Nig. Plc, Unilever Nig. Plc, Honeywell Flour Mill Plc, Guinness Nig. Plc, Dangote Sugar Refinery Plc. The study collected data from secondary source such annual financial statement of the selected firms. The measurement of the variables is indicated on the table below:

<table>
<thead>
<tr>
<th>Variables</th>
<th>How to measure</th>
<th>Abbreviation</th>
<th>Types of variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Assets</td>
<td>Net income/total assets</td>
<td>ROA</td>
<td>Dependent</td>
</tr>
<tr>
<td>Cash conversion cycle</td>
<td>Accounts receivable period plus inventory period less accounts payable, multiplied by 365 then divided by cost of sales</td>
<td>CCC</td>
<td>Independent</td>
</tr>
</tbody>
</table>

The study used descriptive statistics, correlation test and panel regression to study the variables. Correlation is used to evaluate the degree of the relationship between the variables and panel regression technique is used for this study given its superiority over pure cross section or pure time series. The selection of variables for the estimated model was guided by Verbeek (2004) who sets out the framework for panel study as:

\[ y_{it} = \alpha + x_{it}\beta + \varepsilon_{it} \] .................................1

The study used Hausmann test to decide which model is most appropriate between fixed or random effects model. It is carried out with the assumption that the null hypothesis is the preferred model. Random Effect Model is the null hypothesis while the alternative is the fixed effects. It tests whether the unique errors (ui) are correlated with the regressors; the null hypothesis is they are not. The study adopts the panel regression model used by Falope and Ajilore, (2009) and Dong & Su, (2010) with little modifications to suit the requirements of the study. The model used for the study is therefore, stated as follows:

The model is stated below:

\[ ROA_{it} = \alpha + \beta_1 CCC_{it} + \epsilon_{it} \] .................................2

Where ROA\(_{it}\) is the return on asset of firm \(i\) at time \(t\)

\(CCC_{it}\) is Cash Conversion Cycle of firm \(i\) at time \(t\)

\(\epsilon_{it}\) = random error term which takes care of the effects of other factors which are not fixed in the model, on dependent variable

\(\beta_0 = \) Regression Constant

\(i = 1 \ldots N\) refers to the number of companies

\(t = t \ldots Ti\) refers to time period

\(\beta_1\) is the regression coefficient associated with independent variables.
Data Analysis and Discussion

Table 1: Descriptive statistics of the variables

<table>
<thead>
<tr>
<th></th>
<th>ROA</th>
<th>CCC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.543000</td>
<td>81.94000</td>
</tr>
<tr>
<td>Median</td>
<td>0.535000</td>
<td>63.50000</td>
</tr>
<tr>
<td>Maximum</td>
<td>0.950000</td>
<td>154.0000</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.220000</td>
<td>22.00000</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.155357</td>
<td>73.27455</td>
</tr>
<tr>
<td>Skewness</td>
<td>0.141692</td>
<td>2.381120</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>2.765145</td>
<td>8.407752</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>0.282215</td>
<td>108.1723</td>
</tr>
<tr>
<td>Probability</td>
<td>0.868396</td>
<td>0.000000</td>
</tr>
<tr>
<td>Sum</td>
<td>27.15000</td>
<td>4097.000</td>
</tr>
<tr>
<td>Sum Sq. Dev.</td>
<td>1.182650</td>
<td>263088.8</td>
</tr>
<tr>
<td>Observations</td>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Researcher’s Computation Using E-Views 9.0, 2020

From the table 2, the descriptive statistics of Cash Conversion Cycle in this study shows average value of 81.994 over the period of review, median value of 63.50 which shows that the absence of outliers in the values. It has a maximum value of 154.00 and minimum value of 22.00. The variable has a standard deviation of 73.27 which suggests that the value of the observation is spread across its mean value of 81.994. The skewness statistics of the variable is -2.38, suggesting that it is negative while the kurtosis statistics of 8.41 which suggests that the observation is leptokurtic in distribution. The Jaque-Bera statistics of 108.17 with a probability value of 0.00 suggests that the CCC is not normally distributed at 5% level of significance.

Table 3: Correlation of the variables

<table>
<thead>
<tr>
<th></th>
<th>ROA</th>
<th>CCC</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>1.000000</td>
<td>-0.208660</td>
</tr>
<tr>
<td>CCC</td>
<td>-0.208660</td>
<td>1.000000</td>
</tr>
</tbody>
</table>

Source: Researcher’s Computation Using E-Views 9.0, 2020

The above table indicates that there is weak negative relationship between cash conversion cycle and return on asset of selected food and beverage firms in Nigeria.

Table 4: Hausman Test

<table>
<thead>
<tr>
<th>Test Summary</th>
<th>Chi-Sq. Statistic</th>
<th>Chi-Sq. d.f.</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section random</td>
<td>0.400145</td>
<td>1</td>
<td>0.5270</td>
</tr>
<tr>
<td>Period random</td>
<td>0.242809</td>
<td>1</td>
<td>0.6222</td>
</tr>
<tr>
<td>Cross-section and period random</td>
<td>0.955478</td>
<td>1</td>
<td>0.3283</td>
</tr>
</tbody>
</table>

**WARNING: estimated cross-section random effects variance is zero.**

**WARNING: estimated period random effects variance is zero.**
Source: Researcher’s Computation Using E-Views 9.0, 2020

The Hausman test showed that the random effect model is the most appropriate to fixed effect model given the probability value of more than 0.05. Thus, the null hypothesis which states that random effect model is more appropriate is accepted.

Table 5: Panel Regression

Dependent Variable: ROA
Method: Panel EGLS (Two-way random effects)
Date: 04/10/20 Time: 10:23
Sample: 2014 2018
Periods included: 5
Cross-sections included: 10
Total panel (balanced) observations: 50
Swamy and Arora estimator of component variances

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.579250</td>
<td>0.032753</td>
<td>17.68568</td>
<td>0.0000</td>
</tr>
<tr>
<td>CCC</td>
<td>-0.000442</td>
<td>0.000299</td>
<td>-3.478179</td>
<td>0.0059</td>
</tr>
</tbody>
</table>

Effects Specification

<table>
<thead>
<tr>
<th>S.D.</th>
<th>Rho</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section random</td>
<td>0.000000</td>
</tr>
<tr>
<td>Period random</td>
<td>0.000000</td>
</tr>
<tr>
<td>Idiosyncratic random</td>
<td>0.160390</td>
</tr>
</tbody>
</table>

Weighted Statistics

<table>
<thead>
<tr>
<th>R-squared</th>
<th>Adjusted R-squared</th>
<th>Mean dependent var</th>
<th>S.D. dependent var</th>
<th>Sum squared resid</th>
<th>Durbin-Watson stat</th>
<th>Prob(F-statistic)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.543539</td>
<td>0.423613</td>
<td>0.153512</td>
<td>0.160390</td>
<td>1.131158</td>
<td>1.808492</td>
<td>0.005892</td>
</tr>
</tbody>
</table>

Unweighted Statistics

<table>
<thead>
<tr>
<th>R-squared</th>
<th>Mean dependent var</th>
<th>S.D. dependent var</th>
<th>Sum squared resid</th>
<th>Durbin-Watson stat</th>
<th>Prob(F-statistic)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.543539</td>
<td>0.153512</td>
<td>1.131158</td>
<td>1.808492</td>
<td>0.005892</td>
<td></td>
</tr>
</tbody>
</table>

Source: E-view 9.00

The result also shows that cash conversion cycle has negative effect on Profitability of the Nigerian food and beverages companies. This negative effect is significant since the P-value is less than 5%. Thus, we can reject the null hypothesis and concluded that cash conversion cycle has a negative and significant effect on the profitability (measured by ROA) of the Nigerian food and beverages companies.

The coefficient of the CCC from the table is -0.00. This negative coefficient of the Cash Conversion Cycle is an indication that firms that can reduce Cash Conversion Cycle by one day will see their profitability increase with 0%. This is consistent with the traditional view on Cash Conversion Cycle that Ceteris Paribus, firms with shorter or no Cash Conversion Cycle have more efficient working capital management and save costs.

The results also produced a coefficient of determination (R2) of 54% which was sufficiently high indicating that the independent variables in the model account for 54% in the variability of profitability (measured by ROA) of
the sampled food and beverages companies in Nigeria for the study period. The remaining 46% of the variation in profitability of the Nigerian food and beverages firms is explained by factors not captured in the study model. (The coefficient of determination denoted usually by R2 indicates how well data points fit a statistical model; it is a statistic that will give some information about the goodness of fit of a model. It is usually between 0 and 1 with 0 denoting that the model does not explain any variation and 1 denoting that it perfectly explained the observed variation.

Similarly, Durbin Watson statistics (DW) of 1.80 also indicates the absence of auto correlation for all the variables. (Durbin Watson test is a popular test to detect autocorrelation, named after the developers, statisticians Durbin and Watson (1951). It has been established that once DW = 2, then there is no problem of autocorrelation). Therefore, with the results of the regression coefficients revealed in this study, an ideal model values for the relationship between WCM and Profitability of the Nigerian food and beverages companies can be stated thus:

\[
ROA = 0.579 + (0.000442 \times CCC) + e
\]

Discussion of Findings

The result of the regression analysis indicates that the Cash Conversion Cycle (CCC) has a significant negative relationship with profitability (measured by ROA). This is consistent with the view that decreasing the CCC will generate more profits for the company. It also implies that food and beverages companies can create value for their shareholders by keeping the CCC minimum. The finding from this study is consistent with the previous empirical findings of Chuke, Elias and Ibe-Lamberts (2018) and Sugathadasa (2018) who fund a negative relationship between CCC and Profitability. This negative relation between CCC and Profitability however contradicts the findings of Murtala and Sani (2016); Musa and Norhani (2017) who found significant positive relation between CCC and Profitability of firms. This negative effect implies that the selected food and beverage firms in Nigeria have issue in cash conversion cycle period and this negatively affect the return on asset of the firms. The cash conversion cycle may not be calculated very well or expert in the field are not implied to effectively used the cash conversion cycle.

Conclusion and Recommendation

Longer cash conversion cycle has negative effect on net operation profitability of a firm. The Cash Conversion Cycle offer easy and useful way to check working capital management efficiency. For value creation of shareholders, firms must therefore, try to keep these numbers of days to minimum level.

The study recommended that managers should pay more attention to the proper inventory management. This may be achieved by setting certain standard that will help to maintain inventory at optimal level.

References