

# Cash Conversion Cycle and Profitability: Evidence From Greek Industrial Enterprises listed on the Athens Stock Exchange

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## Abstract

The objective of this study is to analyze the respective theory and international literature on working capital management, and, additionally, to explore the relationship between the latter and profitability, for a sample which consists of Greek industrial listed firms in Athens Stock Exchange. For the present research, a sample of 38 industrial Greek firms over a six-year period has been selected, from 2005 to 2010. More specifically, we have studied the effect of the Cash Conversion Cycle and its components on the Gross Operating Profitability (GOP), using the FGLS methodology through panel data. Our purpose was not only to establish a relationship that is statistically significant for the whole period, but also to investigate the effects of the financial crisis on the relationship of working capital management and profitability through a dummy variable. Using FGLS models, the results of this research showed a significant strong negative relation between gross operating income and the cash conversion cycle, in both models with and without the crisis dummy variable. These results suggest that managers can create value and improve the profitability of firms by shortening the cash conversion cycle. It should be highlighted that the relationship between accounts payable and profitability is negative considering the effects of the financial crisis, while it is positive without. This research showed that the international economic crisis has an important impact on the operation and liquidity of Greek industrial firms. This study avoids the traditional approach on corporate finance which focused on the study of long-term financial decisions. Instead, it contributes to the existing literature by analyzing the effects of management in short-term assets and liabilities through the working capital management and its components, and notably, under the prism of crisis.

**Keywords:** Working Capital, Profitability, Cash Conversion Cycle, Inventories, Accounts Payable, Working Capital Management

**JEL classification** - M16, M41

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