

RELATIONSHIP BETWEEN LIQUIDITY, CASH CONVERSION CYCLE AND RETURNS OF RUSSIAN COMPANIES

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Abstract

Within the research we analyze the relationship between liquidity, cash conversion cycle and return (calculated as a return on net operating assets, RNOA) of Russian companies. The question of working capital management is very topical in the context of the Global Financial Crisis (GFC) that brought up a problem of survival for a lot of companies and even industries.

A regression analysis of 720 Russian companies from eight different industries (telecommunication, transport, electric utility industry, trade, metallurgy, mechanical engineering, chemical and petrochemical industry, oil and gas industry), for the period from 2001 to 2013 is performed. As a result, an inverse relation between these companies' cash conversion cycle and RNOA was identified. To analyze the data we use a specialized statistical program – STATA 12.0.

The results of the research show that for all subsamples of companies, excluding the companies with negative cash conversion cycle, there is a statistically significant positive relationship between cash conversion cycle and return on net operating assets; the companies with negative cash conversion cycle are characterized by a positive relationship between these two variables. This result confirms our expectations that in order to increase the return, companies should tend to have a zero cash conversion cycle. We also revealed that there is a statistically significant positive relationship between current liquidity ratio and return on net operating assets.

This brings us to the conclusion that the management of Russian companies should increase the current liquidity ratio but to the extent when RNOA starts to decrease. We found out that the main limitations for increasing RNOA are the required rate of liquidity and the optimal level of financial cycle of an organization. Besides, the recommended intervals of current liquidity ratio are calculated for Russian companies. We define the maximum values of current ratio the excess of which will bring to the negative relationship with return on net operating assets.

Keywords: financial analysis, liquidity, return on assets, cash conversion cycle, managing working capital, Russian companies

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