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An empirical analysis of the determinants of the cash conversion cycle in Kenyan listed non-financial firms

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Abstract

Purpose

The purpose of this paper is to investigate whether non-financial firms listed on the Nairobi Securities Exchange (NSE) exhibit a target cash conversion cycle (CCC). The study also examines the speed of adjustment to the target CCC and the factors that influence corporate decisions on the optimum length of the CCC.

Design/methodology/approach

Based on a sample of 33 publicly traded firms on the NSE for the period between 1993 and 2008, cross-sectional and time series analyses were carried out on the data comprising 468 firm-years. A target adjustment model was developed to examine the significant determinants of the CCC. Various regression approaches including ordinary least squares, fixed effects and two-stage least squares estimation models were used in data analysis.

Findings

The results, which are robust for endogeneity, show that non-financial firms listed on the NSE maintain a target CCC. Further analysis reveals that these firms adjust to the target CCC at a slower rate. The results show that the determinants of the CCC include both firm-specific and economy-wide factors. Specifically, the study establishes that older firms and firms with more internal resources

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inflation and the CCC.

Practical implications

The study establishes that other than internal firm-specific factors, the CCC is also influenced by inflation, which is an external, economy-wide factor.

Originality/value

To the best of the author's knowledge, this is the first study to examine whether listed non-financial firms in a frontier market maintain a target CCC.