

INFLUENCE OF CASH CONVERSION CYCLE ON THE GROWTH RATE OF COMPANIES LISTED AT NAIROBI SECURITIES EXCHANGE

¹ Rodgers Kirombo Ngao, ² Dr. Michael Wahome, PhD, ³ Dr. Sedina Misango, PhD

¹MBA Student, South Eastern Kenya University

^{2,3} Senior Lecturer Department of Business and Entrepreneurship,
School of Business, South Eastern Kenya University

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Abstract: Cash conversion Cycle has increasingly been adopted by the Kenyan companies due to benefits it is accompanied with. This study specifically looked at the influence of cash conversion cycle on the growth rate of companies listed at Nairobi Securities Exchange. The study objective was supported by Cash conversion cycle theory. Longitudinal research design was adopted to collect data from a population of 64 listed Firms at Nairobi Securities Exchange. A sample size of 19 firms was selected through census and simple random sampling technique. Secondary data were collected from each company's annual publications. Both descriptive and inferential analysis were done to analyze the collected data which will be in quantitative form. Both analyses were done with the help of statistical package of social sciences (version 27). Descriptive analysis involved frequency distributions and measures of central tendency. The findings revealed that CCC has negative significant influence on ROE.

Keywords: Cash, cash conversion cycle, growth, listed companies, Nairobi Securities Exchange, companies, ROE.

I. INTRODUCTION

Kenyan companies are increasingly adopting cash management strategies due to their associated benefits, aiming to improve operational efficiency and support growth. These strategies include determining optimal cash balances, managing the trade-off between liquidity and profitability, and investing excess cash in short-term marketable securities (Wölfing & Moormann, 2018). Managers of listed firms often believe that the financial environment greatly influences company growth (Musya, 2018). Kimani (2022) notes that firms relying on short-term debt, retained earnings, and share capital tend to experience positive financial growth, whereas those depending on long-term financing may face negative growth. The African Financials Report (2024) highlights the Nairobi Securities Exchange's (NSE) critical role in promoting savings, investment, and enabling companies—both local and international—to access cost-effective capital for expansion.

Cash conversion cycle is one of the most widely used measures to assess and measure the risks and returns related to liquidity management (Raheem & Malik, 2019). From a financial perspective, cash conversion cycle measures the period it takes to convert inventory into cash from the period when inventory is bought until the period the inventory is sold and the associated expenses are recovered. The cash conversion cycle is an important accounting mechanism for determining the efficiency of working capital management of many firms and most importantly, manufacturing companies (Marko, 2018). This is done as the cash conversion cycle reveals the firm's efficiency in converting inventories into sales, collecting cash from debtors, and paying the trade creditors. The study will be hinged on cash conversion cycle theory by Richards and Loughlin (1980) which considers all relevant cash flows from operations.

2. PROBLEM STATEMENT

Businesses listed on the Nairobi Securities Exchange (NSE) strive for sustainable growth, and efficient financial management—especially of working capital—is key to this goal. A crucial metric in this area is the Cash Conversion Cycle (CCC), which measures how quickly a company turns its investments in inventory and receivables into cash. Studies such as Waiganjo & Theuri (2017) indicate that effective cash management policies can account for up to 43.1% of a company's growth. Despite this, performance among NSE-listed firms remains uneven. While companies like Safaricom PLC and Equity Group Holdings continue to report strong earnings, others—including Mumias Sugar, Uchumi Supermarkets, and Kenya Airways—have struggled with accumulated losses, negative shareholder equity, and operational inefficiencies. For example, Standard Group Ltd recorded negative ROEs of -6.99% in 2021, -7.41% in 2022, and -11.23% in 2023, reflecting a downward trend likely influenced by poor working capital and cash flow management.

Furthermore, other NSE-listed firms have shown volatile financial performance, raising concerns about cash flow efficiency. East African Portland Cement PLC reported ROEs of 5.45% (2021), 1.5% (2022), and -4.1% (2023), while KenGen saw ROEs fall from 7.83% in 2021 to just 0.33% in 2023. These inconsistencies reflect broader challenges in managing cash cycles effectively. According to Maina & Sakwa (2017), frequent corporate failures—such as those of National Bank, Atlas Development, and Mumias Sugar—highlight a persistent issue of poor working capital and liquidity strategies within the Kenyan capital market. Despite the proven link between CCC and firm performance, limited research has been conducted on its specific influence on growth rates among NSE-listed firms. This study, therefore, aims to bridge that gap by examining how the CCC impacts growth, offering insights to help firms improve financial health and avoid decline.

3. EMPIRICAL REVIEW

Rizky and Mayasari (2018) conducted a study on the impact of cash conversion cycle on firm profitability of retail companies listed in Indonesian Stock Exchange. The study used systematic approach in relation to the systematic models and hypotheses and collected secondary data from secondary sources including the financial statements and balance sheets from the retail industry. The study revealed that cash conversion cycle had negative effect on the companies' profitability (ROA). In regards to the findings, the study concluded that the cash conversion cycle (CCC) negatively affected the profitability of retail companies listed in Indonesian Stock Exchange.

According to a study conducted in Malaysia by Aris et al. (2023) on the effects of cash conversion cycle effects on profitability of plantation sector, the study was guided with two objectives; determination of to the effect of Days Inventory Outstanding on the profitability of plantation firms, determination of the impact of Days Sales Outstanding on the profitability of plantation firms and investigation of the influence of Days Payable Outstanding on profitability of plantation firms in Malaysia. The study revealed that whereas day sales outstanding positively influences profitability significantly, days inventory outstanding reported a positive influence on profitability but the relationship is insignificant while days payables outstanding had an adverse effect on profitability and the relationship is insignificant.

Ayoko et al. (2015) researched on the determinants of the performance of firms listed in Nairobi Security exchange. The study employed explanatory nonexperimental research design to check for the factors affecting performance of firms listed in Nairobi Security Exchange. The study findings showed that CCC was positively and significantly correlated to return on assets as well as return on equity.

A study by Sugathadasa (2018) investigated on the relationship between cash conversion cycle and firm profitability giving a special reference to the manufacturing companies in Colombo Stock exchange. The sample of ten manufacturing companies was selected using stratified sampling methods. The study revealed that there was significant positive association between CCC period and return on assets while there was significant negative association between receivable conversion period and return on equity on the profitability of the manufacturing companies listed in Colombo stock exchange.

Rizky and Mayasari (2018) revealed that cash conversion cycle negatively affects profitability of companies. On the contrary, Sugathadasa (2018) found that CCC has a significant positive association with return on assets. The conflicting results show that there is need for more research with regard to performance indicators like growth. Another factor worth noting is the fact that most of these studies are done outside Kenya. These creates both literature and policy gap on the effect of CCC on growth of companies in the country.

4. METHODOLOGY

This study was correlational in design because it collected data from the companies under study over a long period of time (five years). The target population for the study was all the 64 companies listed in the Nairobi Securities Exchange (NSE, 2024). The companies were listed in 13 sectors namely; manufacturing and allied, Real estate investment trust, Exchange traded fund, telecommunication and technology, agricultural, automobiles and accessories, banking, commercial and services, construction and allied, energy and petroleum, insurance, investment, investment services. Using Mugenda and Mugenda (2003) sample size determination formula, a sample size of 30% of the population size was used. This implies that the study sampled 19 listed companies at the NSE using stratified random sampling technique.

Data were exclusively collected from a secondary source. The unit of analysis was the firms listed at the NSE. The data collected covered the period from 2020 to 2024. This means that the study collected panel data. Data processing was done to reduce large amounts of data to a manageable size using the SPSS software (version 27). Inferential statistics was used to establish the influence of cash conversion cycle on the growth of companies.

5. FINDINGS

5.1 Trend of Cash Conversion Cycle

The study wanted to establish the cash conversion cycle for all the listed firms participating in the study. The output from the analysis bore the results as summarized in table 1 below:

Table 1: Cash Conversion Cycle

Trend	Companies
Increase	SAFARICOM, Stanlib Fahari REIT, Car & General, Transcentury Ltd
Decline	New Gold Issuer (RP), Flame Tree Group Holdings, Express Ltd, Nation Media Group, Standard Chartered, Equity Group Holdings Ltd
Fluctuating	Nairobi Securities Exchange, Unga Group, Williamson Tea (K) Ltd, Kakuzi, HF Group, Nairobi Business Venture, East Africa Cables Ltd, TotalEnergies (K) Ltd, Kenya Reinsurance Corporation Ltd

Source: Researcher (2025)

The results indicate that several companies exhibited notable increases across key financial indicators, signalling both operational shifts and potential red flags. TransCentury Ltd recorded a significant rise in its Cash Conversion Cycle (CCC), growing from 121.6 days in 2020 to 198.7 days in 2024, indicating a longer time to convert investments in inventory and receivables into cash. Stanlib Fahari REIT, Unga Group, and Car & General also demonstrated increasing CCC values, suggesting a deterioration in working capital efficiency.

On the other end, multiple companies showed declines. For instance, Equity Group Holdings Ltd reduced its CCC significantly from 151.4 days in 2020 to 59.7 days in 2024, reflecting tighter control over inventory, receivables, or payables. Standard Chartered also saw a steady decline in CCC from 67.1 days to 40.6 days, indicating operational improvement.

A number of companies showed relative stability or stagnation, maintaining consistent performance in some or all of the financial metrics. Kakuzi is a key example, maintaining a fairly steady CCC between 44 and 50 days over the five years. Flame Tree Group Holdings maintained a high but gradually declining CCC, staying near 95–122 days, reflecting consistent but long operational cycles. These companies demonstrate either optimized systems already in place or limited agility to shift performance rapidly.

5.2 Influence of Growth Rate

The growth rate was looked at in terms of the Return on Equity (ROE) of the listed firms under study. Table 2 below shows the summary:

Table 2: Trend in ROE

Trend	Companies
Increasing ROE	- Williamson Tea (K) Ltd
	- Standard Chartered
	- Kenya Reinsurance Corporation Ltd
Decreasing ROE	- SAFARICOM
	- Equity Group Holdings Ltd
	- Nation Media Group
	- Transcentury Ltd
	- New Gold Issuer (RP)
Fluctuating ROE	- Car & General
	- Flame Tree Group Holdings
	- HF Group
	- Stanlib Fahari REIT
	- TotalEnergies (K) Ltd
	- Kakuzi
	- Nairobi Securities Exchange

The study found out that, based on the ROE data from 2020 to 2024, a few companies demonstrate a generally increasing trend in their returns on equity, indicating improved profitability or efficiency in the use of shareholder funds. Notable among these are Williamson Tea, Standard Chartered, and Kenya Reinsurance Corporation Ltd, all of which recorded steady year-on-year growth in ROE. Williamson Tea rose from 2.20% in 2020 to 13.10% in 2024, while Standard Chartered improved from 11.03% to 31.59% over the same period. Similarly, Kenya Reinsurance showed consistent annual gains, increasing from 9.00% to 12.00%. These trends suggest strong management performance and possibly expanding business operations or improved market conditions.

In contrast, several companies experienced a continuous decline in their ROE over the five-year period, reflecting deteriorating financial performance or challenges in maintaining profitability. SAFARICOM, despite having the highest average ROE overall, saw its returns fall from 51.25% in 2020 to 30.44% in 2024. Equity Group Holdings also followed a similar downward path after peaking in 2022 at 62.34%, eventually dropping to 14.24% by 2024. Other examples include Nation Media Group, whose ROE fell from 7.30% in 2020 to -6.50% in 2024, and Transcentury Ltd, which saw a sharp decline from a peak of 24.51% in 2021 to just 0.04% in 2024. These declines may point to rising operational costs, reduced margins, or market challenges affecting profitability.

A significant number of companies, however, exhibited fluctuating ROE patterns, indicating inconsistent performance and possibly reflecting external market volatility or internal restructuring efforts. For example, New Gold Issuer (RP) saw dramatic shifts from a negative ROE of -9.26% in 2020 to a high of 13.35% in 2022, only to dip again before recovering in 2024. Car & General showed strong performance early on but fell into negative ROE territory by 2023. Similarly, Flame Tree Group, HF Group, and Transcentury Ltd all had years of both strong and weak returns, lacking a clear upward or downward trajectory. These patterns may warrant caution from investors due to the uncertainty and potential risk associated with inconsistent profitability.

5.3 Correlation between CCC and ROE

The study sought to determine the correlation between the CCC and ROE. The findings were as presented in table 3.

Table 3: Correlation between CCC and ROE

Correlations		ROE	CCC
ROE	Pearson Correlation	1	-.105
	Sig. (2-tailed)		.023
	N	95	95
CCC	Pearson Correlation	-.105	1
	Sig. (2-tailed)	.023	
	N	95	95

The relationship between ROE and the Cash Conversion Cycle (CCC) is weak and negative ($r = -0.105$, $p = 0.023$), and statistically significant, suggesting that CCC may have an effect on profitability of the listed firms.

5.4 Model Coefficients for ROE

The study sought to formulate a model which links the CCC with ROE, giving the results on table 4.

Table 4: Model Coefficients for ROE

Coefficients ^a		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	9.089	3.602		2.523	.013
	CCC	-.076	.033	-.191	-2.319	.023

a. Dependent Variable: ROE

The regression results show that CCC shows a negative significant relationship with ROE (coefficient = -0.076 , $p = .023$).

6. DISCUSSIONS

The main objective of the study was to examine the influence of the cash conversion cycle (CCC) on the growth rate of companies listed on the Nairobi Securities Exchange (NSE). The study found that the CCC has a negative and significant impact on company growth, suggesting that longer cash conversion periods may foster growth among NSE-listed firms.

7. CONCLUSIONS

The study found out that Safaricom, Stanlib Fahari REIT, TotalEnergies (K) Ltd, Nairobi Business Venture, and Standard Chartered as the most efficient companies in managing their cash cycles while in contrast, Transcentury Ltd, East Africa Cables Ltd, Nation Media Group, Flame Tree Group, and HF Group posted the highest CCC values, reflecting challenges in liquidity and operational efficiency. These trends offer valuable insights for investors and management teams regarding financial health and working capital performance. It was realized that cash conversion cycle has a negative significant influence on the growth rate of companies listed in NSE.

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