

Do Corporate Governance Practices Influence Working Capital Management Efficiency? Evidence From Listed Manufacturing Companies in Sri Lanka

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Abstract

The purpose of the study is to investigate the influence of corporate governance practices on working capital management efficiency in the listed companies of the manufacturing sector in Sri Lanka. Board meeting, board size, CEO tenure and size of the audit committee are used as corporate governance practices and the cash conversion cycle is calculated to measure the working capital management efficiency. Sales growth and firm size are considered as control variables to evaluate the influence of corporate governance practices on working capital management efficiency. Relevant data are extracted from the annual reports of 30 listed manufacturing companies for the period from 2013 to 2017. Finally, 150 observations are used for the data analysis. Pearson correlations are executed to determine the relationship between corporate governance practices and working capital management efficiency. OLS regression analysis is performed to determine the explanatory power of the combination of corporate governance practices on the efficiency of working capital management. The correlation analysis shows that board meeting, CEO tenure and firm size have a significant positive relationship with cash conversion cycle. The regression results suggest that board meetings and CEO tenure have a significant positive influence on cash conversion cycle. Generally, the shorter the cash conversion cycle is better for the business, therefore, according to this result the increase in a board meeting and CEO tenure have the considerable decreasing in liquidity position in an organization. Therefore, the outcome of the study may be useful to the top management of the firms and practitioners when they are implementing governance mechanisms in order to enhance the working capital efficiency.

Keywords: corporate governance practices, working capital efficiency, manufacturing companies

1. Background of the Study

The company's accounting strategy is designed to monitor and improve the effective use of current assets and liabilities to ensure the most financially efficient operations of the company. The objective of working capital management is to maintain the company's current assets and current liabilities in order to run its day-to-day operations or business smoothly and without disruption. A lower level of the liquidity position threatens the company's short term solvency and makes it insecure and unsound. Negative working capital means current liabilities over current assets and can damage the reputation of the company by interrupting the day to day operations of the firm. Too much of working capital is kept in the firm is also not advisable because excessive liquidity will not involve in generating the profitability to firm. Therefore, cash management of the firm must take prompt and timely action to improve and correct the imbalances in the liquidity position of the company and which should be maintained at the satisfactory level. Companies usually follow a cycle in which they buy inventory, sell goods on credit and then collect debtors. This cycle is called the cash conversion cycle. A sound working capital policy is designed to minimize the time between cash spending on materials and cash collection when selling.

Corporate governance is processes and mechanism that ensure that the firm is being directed and managed to enhance long term shareholder value. If firms want to maintain the sustainability and survival, day to day business operations should be without interruptions. Then only they can run the business efficiently. Therefore, there should be a proper mechanism to monitor the business function in order to maximize the shareholders wealth. Cash conversion cycle is treated as a measure of efficiency in working capital (Deloof, 2003). A firm's cash conversion is the period during which it is transited from goods to money and again from money to goods (Deloof, 2003; Raheman

& Nasr, 2007). A sound working capital policy positively contributes in creating firm value (Bagchi & Khamrui, 2012). The firm's twin goals of profitability and liquidity will often conflict since liquid assets give the lowest returns.

There is a question here about how the monitoring mechanism of the company works when designing working capital policy. Good corporate governance depends on the principles of accountability, transparency, fairness and responsibility in the management of the company (Ehikioya, 2009). The importance of corporate governance arises in a company because of the separation between those who have control and those who have the residual claims (Epps & Cereola, 2008). The Agency's theory suggests corporate governance as a mechanism to mitigate these conflicts by monitoring the performance of managers and aligning management objectives with those of stakeholders (Brickley & James, 1987). However, the way in which corporate governance is organised differs between countries, depending on the economic, political and social contexts (Heenetigala, 2011). However, controlling mechanism of the sound corporate governance plays an important role in the formulation of sound working capital management policies. Thus, corporate governance practices are giving a direction to maintain the proper level of working capital in a firm (Rosdiana et al., 2019). Therefore, it is really important to the organizations for their functions, sustainability and making profit. Having understood the responsibility of corporate governance in designing sound working capital policy to lead the firm value, researchers attempt to study the influence of corporate governance practices on working capital policy.

The current study focuses on Sri Lankan listed manufacturing companies as the manufacturing sector is considered as one of the key segments of the economy, which is giving significant contribution to the economic growth of the country. Currently, the manufacturing sector is giving employment for more than 1.5 million people in Sri Lanka. Nature of business is one of the factors to determine the level of working capital for an organization. Most of the assets in manufacturing companies are composed of current assets. Therefore, this sector gets significant attention to investigate the influence of corporate governance practices on working capital policy. There are few numbers of studies have been conducted in Sri Lankan economy on the relationship between corporate governance practices and working capital management (e.g: Achchuthan & Kajanathan, 2013). Under the fully-fledged globalized world, currently, organizations are undergoing changes due to the tight competition. Therefore, governance and monitoring mechanism are also updated in the organizations. Thus, this study tries to investigate the influence of corporate governance practices on working capital management efficiency. So that problem of the study is stated as *do corporate governance practices influence on working capital management efficiency?*. Therefore, the objective of the study is to investigate the influence of corporate governance practices on working capital management efficiency.

2. Literature Review

2.1 Corporate Governance

Corporate governance has received much attention in the last two decades as a result of certain economic and policy reforms in countries and disasters in economic history, such as the global financial crisis and the regional market crisis (Senaratne & Gunaratne, 2008). Agency theory and Stewardship theory are two main approaches to corporate governance that can be identified in this context. According to the Kiel and Nicholson (2003), the Agency theory is seen as the separation of ownership and control. It means that professional managers manage a company on behalf of the owners of the company. A solution was also given to the office conflict that the top management of a company should have a large part of the ownership of the company to ensure a positive relationship between corporate governance and the amount of shares held by top management (Mulini & Wong, 2011). The Stewardship theory, on the other hand, is considered to be the theory of stakeholders. This theory suggests that a company's board of directors and its CEO, acting as stewards, are more motivated to act in the best interests of the owners of the company rather than taking into account the personal interests of managers (Mulini & Wong, 2011).

2.2 Agency Theory

This theory indicates that principles and agents are two different groups involved in the management of the company. The principles are the owners of the company through capital provision to run the company. The owners of the company can then delegate the management of the company to the employees at different levels who have to work to promote the interests of the business owners who should lead to their wealth (Ahmed, 2009). These employees with delegated authority to manage the company are known as the agents of the principles. It means that people are consumed by their own personal interests and are not interested in helping others. Yusoff and Alhaji (2012) considered corporate governance as a channel in which the board of directors and top management were both considered watchdogs used to reduce conflicts over the relationship with the principal and agent.

The agency theory is applicable to this study in the context that the corporate governance practices are monitoring mechanism to eradicate the agency challenges within an organization. The corporate governance mechanisms ensure that the decisions made by the management are in the best interests of the firm and they are financially sound. The aspects of being financially sound ensure that the working capital management aspects are addressed in an objective manner within the organization.

2.3 Working Capital Management

Working capital can be defined as the funds of an organization needs for its daily operations (Deloof, 2003). Sagner (2014) expresses his view on working capital which is the financial health of an organization and connected it to profitability and growth. Talonpoika, Karri, Pirttila, and Monto (2016) described net working capital as current assets less current liabilities. Operational working capital consists of inventories, accounts receivables and accounts payables while financial working capital includes the net working capital that is not tied into operations, such as cash (Knauer & Wohrmann, 2013). Inventories, accounts payables, such as money to pay suppliers and accounts receivables such as payments received from business partners after sales are the components of operational working capital (Talonpoika, Monto, Pirttila & Karri, 2014). Adequate financing for cash receivables and net of inventory payables are required to maintain proper working capital (Deloof, 2003). During the money management circle, the proportion of receivables and payables are occasionally changing (Bendavid, Herer, & Yucesan, 2017). The requirements of working capital help determine the profitability of a firm and the impact of financing and investing decisions (Enqvist, Graham & Nikkinen, 2014).

2.4 Cash Conversion Cycle

The cash conversion cycle is used to measure the effectiveness of a company's management and, consequently, the overall health of that company. The calculation measures how quickly a company can convert cash on hand into inventories and creditors, via sales and debtors and then again into cash (Njoku, 2017). By combining these activity ratios, the measurement reflects the efficiency of management's ability to use assets and liabilities in the short term to generate cash for the company. The cash conversion cycle plays an important role in the survival and the success of the business. Working capital is an important factor because it has a direct positive effect on the profitability and liquidity of the company. The optimal level of liquidity, debts and good management of business liquidity demonstrates the ability of the company to respond to short-term obligations. Inadequate policy with regard to debtors, creditors and inventory management has a negative impact on the cash conversion cycle (Sadegh, 2016).

2.5 Corporate Governance Practices and Working Capital Management

There are a number of principles that are essential for good corporate governance, where it has been established that the board of directors, the audit and the interests of the shareholders represent the critical basis and the virtues of good corporate governance. In order to better value corporate governance issues, companies must take into account the risk appetite of their shareholders, management structures are discussed with information about the size of the board, the composition of the board and the mandate of the CEO.

Samson, Mary, Yemisi and Erekpitan (2012) suggest that industry practices, the size of the company, future sales growth, external directors, management compensation and shareholder ownership significantly increase the efficiency of a company's working capital management. Studies have also shown that the greater the number of outsiders on the company's board of directors, the better the working capital management performance and the greater the current remuneration of the CEO, the better the working capital management performance. With an adequate policy with regard to debtors, creditors and inventory management have a negative influence on the cash conversion cycle. The policy to maintain high cash balances can reflect management's own risk aversion and can cause a desk problem, because the board of directors and the CEO can hold balances that do not maximize the wealth of the shareholders (Gill & Biger, 2013). By managing working capital effectively, shareholders can achieve a maximum return on their invested capital. Weak corporate governance can have adverse consequences for the consequences for cash management, debtors, stocks, creditors and cash. The CEO tenure helps to improve working capital management. The dual responsibility CEOs serve the interests of the management team and one way to protect the position of the team is to maintain excessive corporate liquidity. In addition, the CEO, together with the board of directors, formulates a policy including working capital management policy. Following hypothesis is formulated to investigate the relationship between corporate governance practices and the cash conversion cycle.

H₁: There is a significant influence of corporate governance practices on working capital management efficiency.

This hypothesis has been divided further based on the variables considered in this study. Variables considered in this study are discussed below:

2.6 Number of Board Meetings and Working Capital Management

Ali and Shah (2017) conduct a study focusing 62 listed manufacturing companies in Pakistan Stock Exchange to investigate the impact of corporate governance practices on working capital management for the period from 2014 to 2016. The results of their study reveal that audit committee, board size and gender effect have shown the improvement in the use of working capital. But number of board meetings and CEO duality are not related to working capital. Similar findings are observed that there is no relationship between number of board meetings and working capital efficiency by Meshack (2015); Kamau and Basweti (2013) and Achchuthan and Kajanathan (2013). Even though, Al-Rahahleh (2016) finds the negative impact of board size, number of board meetings and audit committee on cash conversion cycle. Therefore, mixed results have been reported from the previous studies and therefore, current study formulated a hypothesis as

H_{1a}: There is a significant influence of the board meeting on cash conversion cycle.

2.7 Board Size and Working Capital Management

Kamau and Basweti (2013) believe that there is a positive correlation between the size of the board and the working capital efficiency. A larger board size may find it difficult to reach a consensus in decisions that may ultimately affect the quality of corporate governance. Larger boards enable companies to bring diverse and vital resources to the board that can make management decision making effective and efficient, directly or indirectly face challenges in the global business environment. The size of the board influences the quality of the deliberations among the members and the ability of the board to make optimal business decisions. The creditor's period and debtors period are components of the working capital that can be influenced by the decision of the board. There is almost a consensus in the conceptual literature that effective councils are composed of larger amounts of external directors. A preference for boards dominated by outsiders is largely based on the theory of the agency.

Agency theory is a control-based theory, because managers are expected to gain an advantage over business owners who are largely removed from the operational aspects of the business based on their business-specific knowledge and management expertise. The potential for this conflict of interest or fight for control requires a monitoring mechanism designed to protect shareholders as owners of the company (Jensen & Ruback, 1983). A study of Fortune 500 companies, Dalton and Kesner (1987) found a positive and significant relationship between the share of internal directors and the return for investors, the previous work on corporate governance reported a positive relationship between internal directors and business performance.

Having understood the relationship between board size and working capital management efficiency, following hypothesis has been formulated that

H_{1b}: There is a significant influence of board size on cash conversion cycle.

2.8 Chief Executive Officer (CEO) Tenure and Working Capital Management

Gill and Biger (2013) recommends that CEO tenure enhances the efficiency of working capital management. Kyereboah-Coleman (2008) argues that there is a positive relationship between CEO tenure and shareholders wealth. CEO tenure also helps in improving working capital management. Further, the CEO together with the board of directors formulates policies, including policy related to working capital management. Therefore, it can be hypothesised that

H_{1c}: There is a significant influence of CEO tenure on cash conversion cycle.

2.9 Audit Committee and Working Capital Management

Njoku (2017) conducts a study into the relationship between the parameters for corporate governance and working capital management. According to the results of his investigation, he pointed out in his investigation that the size of the board of directors and the audit committee are significantly related to the cash conversion cycle. Similar findings are the result of Healy and Palepu in 2001. Healy and Palepu (2001) suggest in their research that audit committees must have at least three members to increase independence. An independent audit committee increases the working capital efficiency by checking cash accounts, accounts payable and inventory accounts. This in turn minimizes agency problems and agency costs. The board should present and objective and understandable assessment of the company's operating position and prospects. The present study formulates the hypothesis as follows:

H_{1d}: There is a significant influence of audit committee on cash conversion cycle.

2.10 Control Variables

Sales growth and firm size are considered as control variables in this study. The effect of the board size, board meeting, CEO tenure and audit committee on the cash conversion cycle have evaluated with the consideration of firm size and the sales growth as the control variables. Sales growth and firm size are used as control variables to investigate the relationship between corporate governance practices and the cash conversion cycle in the previous studies of Chaudhry and Ahwad (2015); Faradonbeh and Dolatabadi (2015); Gill, Biger and Obradovich (2015) and Valipour, Morad and Farsi (2012).

2.11 Conceptualization

Based on the knowledge gathered from the theories and literature review, following conceptual framework has been developed to conduct the study.

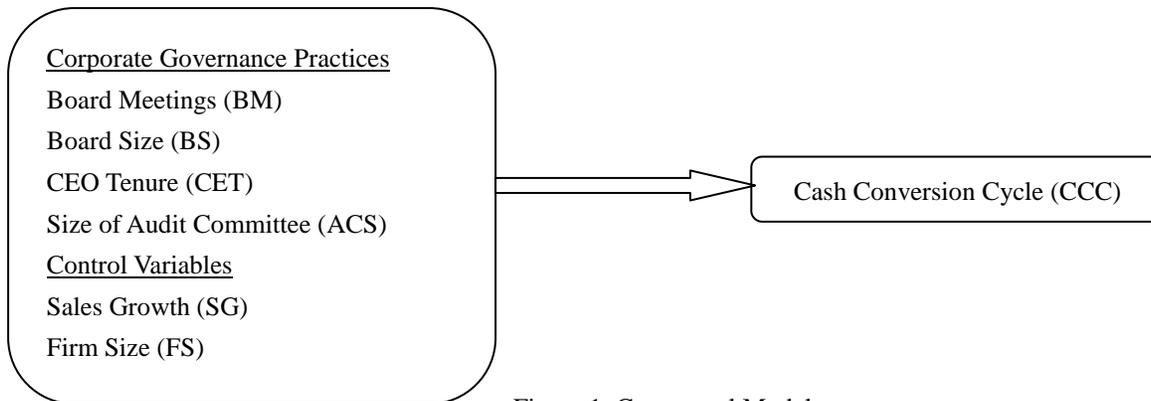


Figure 1. Conceptual Model

2.12 Model Specification

The following multiple regression model is to examine the influence of corporate finance practices on cash conversion cycle of the listed manufacturing companies in Sri Lanka.

$$CCC = \beta_0 + \beta_1 BM + \beta_2 BS + \beta_3 CET + \beta_4 ACS + \beta_5 SG + \beta_6 FS + \varepsilon$$

Where,

CCC - Cash Conversion Cycle

BM - Board Meeting

BS - Board Size

CET - CEO Tenure

ACS - Audit Committee Size

SG - Sales Growth

FS - Firm Size

ε - Error term

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$ - Model coefficients

3. Research Design

Research design is a process of creating an empirical test to give the solution for the research problem. Since the purpose of the study is to investigate the influence of corporate governance practices on working capital policy, a quantitative method is the most suitable approach. Based on theory and empirical review, hypotheses are formulated and tested to answer the research questions. Therefore, this study is descriptive in nature and quantitative research

study. The researcher employees a descriptive and inferential statistics and use panel data as input variables to ascertain the impact.

3.1 Population and Sampling

The target population of the study is 41 manufacturing firms listed on the Colombo Stock Exchange as at 31.12.2018. From the population, 30 manufacturing companies are selected as a sample size for the last five years from 2013 to 2017 as per the availability of the data. Newly listed companies have been excluded from the survey as we have considered last five years data. Then, totally 150 observations considered in this study for the analysis purpose. Data are collected from the annual reports of the respective companies which are available on the CSE website. Information on the financial statements are fully audited and therefore, those are considered as reliable.

Following table clearly indicates the variables and their measurement.

Table 1. Operationalization of variables

Concept	Variables	Indicator	Measurement
Corporate Governance Practices (Independent Variables)	Board Meetings	Number of board meetings held in a year	How many meetings in a year. (Ali & Shah, 2017)
	Board Size	Number of directors serving in the board	Number of inside and outside directors on board (Ali & Shah, 2017)
	CEO Tenure	How many years serving as a CEO	Number of years serving as a CEO (Gill & Biger, 2013)
	Audit Committee Size	How many members are in the audit committee	Number of members in the audit committee (Al- Rahahleh, 2016; Njoku, 2017)
Working Capital Management (Dependent Variable)	Accounts Receivable	How many days to be waited to receive accounts receivables	(Accounts receivables / Sales) × 365 days (Sathyamoorthi et al.,2018)
	Accounts Payable	How long can take to pay accounts payables	(Accounts payables / Cost of goods sold) × 365 days (Sathyamoorthi et al.,2018)
	Sales of Inventory	Stock turnover indicates how often a company has sold and replaced stocks during a certain period	(Inventory / Cost of goods sold) × 365 days (Sathyamoorthi et al.,2018)
	Cash Conversion Cycle (CCC)	CCC expresses the duration (in days) that a company needs to convert its investments in stocks and other resources into cash flows from the sale.	(Inventory turnover + Accounts receivables) – Accounts payables (Sathyamoorthi et al.,2018)
Control Variables	Sales growth ratio	Growth in sales	(Current year sales - Previous year sales)/ Previous year sales × 100 (Gill et al., 2015)
	Firm Size	Firm Size	Log of total assets (Gill et al., 2015)

4. Results and Discussion

4.1 Descriptive Statistics

The descriptive statistics are used to describe the characteristics of the various corporate governance practices and cash conversion cycle and its components. The table 2 represents the results of the descriptive statistics such as mean, standard deviation, minimum and maximum values of the study.

Table 2. Descriptive statistics

	AR	AP	INV	CCC	BM	BS	CET	AC	SG	FS
Mean	77.3217	74.2627	91.0071	94.0660	6.7533	8.0733	9.5133	3.1000	21.1512	21.4712
Median	72.6549	58.5822	81.6989	96.1081	5.0000	8.0000	7.5000	3.0000	6.5246	21.1923
Maximum	290.3484	431.2666	317.3507	363.9305	15.0000	15.0000	39.0000	7.0000	176.7485	23.7676
Minimum	7.0990	4.1953	0.0000	-303.4976	2.0000	4.0000	1.0000	2.0000	-73.1219	19.0482
Std. Dev.	42.4390	70.3402	56.1938	85.9322	3.4909	1.8863	7.2470	0.8955	146.0023	1.0519
Skewness	1.1766	3.0767	1.5564	-1.3336	0.7845	0.2972	1.9305	0.7594	11.5311	0.0707
Kurtosis	6.3989	13.5390	6.3463	8.5223	2.0101	3.1669	7.7457	4.2584	138.3094	2.2929
Jarque-Bera	106.8169	930.8565	130.5560	235.0704	21.5128	2.3831	233.9436	24.3164	117753.2	3.2492
Probability	0.0000	0.0000	0.0000	0.0000	0.0000	0.3037	0.0000	0.0000	0.0000	0.1969
Observations	150	150	150	150	150	150	150	150	150	150

The table 2 represents the descriptive statistics of 150 observations. According to the descriptive statistics show in the table 2, averagely, number of board meetings of selected manufacturing companies is 6.7533 meetings per year. Its standard deviation is 3.49. The minimum board meetings are 2 and maximum 15 meetings per year. The mean board size is 8 directors. Its standard deviation is 1.89. It indicated that the firm with the small number of directors are 4 while the largest number of directors are 15 on the board. The board size is an important characteristic of corporate governance mechanisms as it is linked to the efficiency of the board. Very small board sizes are deemed inefficient as they are unable to form a sufficient number of committees handling with different issues in a firm and they may also be overworked. On the other hand, an extremely large board size can also be inefficient in terms of coordination of its functions as there may be different opinions. Average CEO tenure is 9.5133 years and its standard deviation is 7.25. The minimum years of working as a CEO is 1 year and maximum years are 39. According to the table, mean value of the audit committee is 3.1000 members and its standard deviation is 0.895. The small number of audit committee members is 2 and the firm with the largest number is 7. According to the table, the average value of the sales growth is 21.15% and its standard deviation is 146.00% the reason for this high deviation is the data points are spread out over a wider range of values. The minimum percentage of the sales growth is -73% because of that some companies had a decline rate. The maximum growth rate is 176% and the reason for this high growth is revenue is differing from company to company and therefore, one company's high growth affected to the total sample. The sales growth is used as a control variable in this study. A high sales growth implies that the firm is increasingly expanding on its sales levels in progressive years. The mean value of firm size is 21.4712 and standard deviation is 1.0519. The maximum value is 23.7676 and minimum value is 19.0482. According to the table, the mean value of the cash conversion cycle is 94.0660 days and the standard deviation is 85.9322 days. The minimum and maximum days of cash conversion cycle are -303.4976 and 363.9305 days respectively.

4.2 Correlation Analysis

Correlations between the variables considered in the study are presented in table 3 and which are calculated based on the 150 observations from 30 listed manufacturing companies in Sri Lanka.

Table 3. Correlation matrix

Correlation Probability	AR	AP	INV	CCC	BM	BS	CET	ACS	SG	FS
AR	1.0000 -----									
AP	0.1421 0.0828	1.0000 -----								
INV	0.1078 0.1889	0.2768 0.0006	1.0000 -----							
CCC	0.4480 0.0000	-0.5673 0.0000	0.4806 0.0000	1.0000 -----						
BM	0.1433 0.0800	0.2078 0.0107	0.4801 0.0000	0.2146 0.0084	1.0000 -----					
BS	0.1193 0.1459	0.0934 0.2553	0.1403 0.0866	0.0742 0.3666	0.0679 0.4084	1.0000 -----				
CET	-0.0001 0.9987	-0.1934 0.0177	0.0884 0.2819	0.2160 0.0079	-0.1490 0.0686	-0.2737 0.0007	1.0000 -----			
ACS	0.1068 0.1932	0.0128 0.8756	0.0925 0.2599	0.1027 0.2108	0.2569 0.0015	0.3968 0.0000	-0.2302 0.0046	1.0000 -----		
SG	-0.0797 0.3319	0.0269 0.7434	0.0009 0.9904	-0.0608 0.4598	0.0281 0.7328	0.1320 0.1071	-0.1090 0.1842	-0.0864 0.2929	1.0000 -----	
FS	0.0079 0.9234	0.1307 0.1107	0.4361 0.0000	0.1820 0.0257	0.2589 0.0014	0.0716 0.3837	-0.0191 0.8158	0.0066 0.9353	-0.0349 0.6711	1.0000 -----

As per the result presented in table 3, board meeting ($r = 0.2146$, $p = 0.0084$) and CEO tenure ($r = 0.2160$, $p = 0.0079$) have a significant positive relationship with cash conversion cycle. Further, board size ($r = 0.0742$, $p = 0.3666$) and the size of audit committee ($r = 0.1027$, $p = 0.2108$) have not shown any significant relationship with cash conversion cycle. Further, it is notified that there is no significant relationship between sales growth and the cash conversion cycle ($r = -0.0608$, $p = 0.4598$). Further, a positive correlation has identified between firm size and the cash conversion cycle ($r = 0.1820$). It is significant at the 5% level ($p = 0.0257$). Therefore, we can understand that number of board meetings and longer period of CEO tenure have significantly positively associated to the cash conversion cycle. Even though, the general concept of working capital management emphasized that shorter cash conversion cycle is ideal for the business organizations.

4.3 Test for Variance Inflation Factor (VIF)

VIF test is carried out to check multi-co linearity problem between the independent variables considered in this study.

4.4 Variance Inflation Factor for Cash Conversion Cycle

Table 4. Test of Multi-Co Linearity among the independent variables

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	1487.604	33.78976	NA
BM	3.943622	5.169747	1.084395
BS	15.48191	24.16369	1.242983
CET	0.940426	3.047651	1.114402
ACS	70.83690	16.74438	1.281841
Mean VIF			1.18090525

Table 4, shows that the VIF for each explanatory variable is less than 10 and the mean of VIF is also less than 2. Further, none of the tolerance value is more than 10. Therefore, it is considered as model of this study is not affected by the issues of multi-co linearity.

4.5 Regression Analysis

Regression analysis is used to investigate the influence of corporate governance practices on cash conversion cycle. The OLS regression equation is presented below:

$$\begin{aligned}
 CCC &= \beta_0 + \beta_1 BM + \beta_2 BS + \beta_3 CET + \beta_4 ACS + \beta_5 SG + \beta_6 FS + \alpha & (1) \\
 CCC &= (253.5668) + 4.9406 + 4.9147 + 3.4398 + 6.8120 + (0.0226) + 10.3034
 \end{aligned}$$

Table 5. Regression analysis

Variable	Coefficient	Std.Error	t-Statistic	Prob
C	-253.5668	142.2457	-1.7825	0.0768
BM	4.9406	2.0621	2.3958	0.0179
BS	4.9147	3.9975	1.2294	0.2209
CET	3.4398	0.9716	3.5403	0.0005
ACS	6.8120	8.5644	0.7953	0.4277
SG	-0.0226	0.0468	-0.4844	0.6288
FS	10.3034	6.5905	1.5633	0.1202

R-squared	0.1463	Mean dependent var	94.0660
Adjusted R-squared	0.1105	S.D.dependent var	85.9322
S.E.of regression	81.0430	Akaike info criterion	11.6733
Sum squared resid	939221.1	Schwarz criterion	11.8138
Log likelihood	-868.5036	Hannan-Quinn criter	11.7304
F-statistic	4.0866	Durbin-Watson stat	0.9994
Prob (F-Statistic)	0.0008		

The OLS regression results presented in the table 5 reveal that the value of coefficient of determination ($Adj.R^2$) is 0.1105, which says that 11.05% of variance on the cash conversion cycle is explained by the all independent variables used in the model, which is significant as probability associated with F is 0.0008. This is less than 0.05. Further, board meeting ($\beta = 4.9406$, $p = 0.0179$) and CEO tenure ($\beta = 3.4398$, $p = 0.0005$) have significant positive influence on cash conversion cycle. Board size ($\beta = 4.9147$, $p = 0.2209$) and size of the audit committee ($\beta = 6.8120$, $p = 0.4277$) have not significantly influenced on cash conversion cycle. Further, sales growth and firm size have not shown any significant influence on cash conversion cycle.

It can be explained that, board meetings and CEO tenure have the positive influence on the cash conversion cycle, which implying that an increase in the number of board meetings and CEO's experience would result in an increase in the cash conversion cycle. Normally the shorter the cash conversion cycle the better for the business, therefore, according to this result the increase in board meeting and CEO tenure have the considerable decreasing in liquidity in an organization because of working capital efficiency is not a good position in this study. Formulated main hypothesis of this study has been subdivided based on the variables considered in this study. On this behalf, H_{1a} stated that there is a significant influence of board meetings on cash conversion cycle. The findings of the study are supported with the hypothesis (H_{1a}) of the study ($\beta = 4.9406$, $p = 0.0179$). As explained above board size and the size of audit committee have not shown any significant influence on cash conversion cycle, therefore, the results of the study are not supported with H_{1b} and H_{1d} . The findings of this study are contradicting with the outcome of the studies of Sathyamoorthi et al. (2018) and Chaudhry and Ahmad (2015) because they have found that board size has a significant negative effect on the cash conversion cycle. Even though, CEO tenure has significant influence on cash conversion cycle, so that the results of the study is supported with H_{1c} that there is a significant influence of CEO tenure on working capital efficiency. Further, the results of the study are not consistent with studies of Achchuthan and Kajanathan (2013) and Goel, Bansal and Sharma (2015) as they have found that there is no significant relationship between corporate governance practices and the cash conversion cycle. Board meeting and CEO tenure have a positive significant relationship with cash conversion cycle. Therefore, the study has recommended that effective working capital management policies should be formulated through corporate governance practices of the listed manufacturing companies in Sri Lanka. Financial management professionals in particular should focus on companies' payment, collection and inventory management policies to provide better strategic solutions or alternatives in the competitive environment.

5. Conclusion

This study illustrates the ways in which the aspects of corporate governance practices influence the working capital management efficiency. The aim of this study is to examine the influence of corporate governance practices on working capital management efficiency of listed manufacturing companies in Sri Lanka. The data has been collected from thirty listed manufacturing companies for a five years period from 2013 to 2017 from annual reports which are available in CSE website. Board meetings and CEO tenure have significant positive influence on cash conversion cycle. Normally shorter cash conversion cycle is preferable by the companies. But this study finds positive influence. Therefore, the findings may be of importance in the development of policies and guidelines on corporate governance and working capital management aspects. The analysis covers only a period of five years from 2013 to 2017 and the researcher had selected only thirty listed manufacturing companies. For the results to be more advanced, the future researchers can be focused more companies listed from all the sectors listed on the CSE will have to be included as a sample. The study suggests for further studies to examine the relationship between corporate governance practices and working capital management efficiency of Small and Medium Enterprises (SMEs) sector in order to enhance the regional development. The study also suggests a comparison of the different firms in the segment such as the financial sector and manufacturing sector in order to derive the various aspects specific to the sectors.

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