The Impact of Working Capital Efficiency on Stock Returns: Evidence from Palestine Exchange

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Abstract

The major aim of this study tends to examine the impact of working capital management on the stock prices of the industrial corporations listed on the Palestine Exchange; PEX. Hence, this paper refers to the financial data of the listed industrial corporations in the PEX from 2007-2014 as it is a trustworthy sample and highly participates in achieving the aforementioned objective. It also employs a number of statistical tests, for instance, it employs (descriptive statistics, Pearson's correlation, and the linear regression tests). Consecutively, this paper selects ten listed Palestinian industrial corporations to examine its hypotheses [80 firm-years]. Consistent with its goals, this paper elicits the following findings:(1) The industrial corporations listed on the PEX are inefficient in managing the working capital. (2) There is a negative and insignificant impact of the cash conversion cycle (CCC) on the stock returns of the industrial corporations listed on the PEX. (3) There is no impact of CCC components (ARTD, ITD, and PTD) on the stock returns of the industrial corporations listed on the PEX. Finally yet importantly, this valuable study highlights a set of highly constructive recommendations. From this point, it recommends the industrial corporations listed on the PEX to work on concentrating their efforts toward steering the working capital management in an efficient manner so as to enhance this eminent sector. It also recommends the Palestine Exchange to put into effect designing efficient policy for the working capital management by the listed corporations and making it an obligatory required item.

Key Words: Industrial sector, working capital management, cash conversion cycle, Palestine Exchange [PEX], stock returns

1. Introduction

In the past, the focus of the literatures in exploring the finance and accounting was given to investigate the long-term financial decisions. The researchers, for instance, particularly tended to explore the capital structure, dividends or corporation value [1]. In contrast, since 1990s, the researchers leant towards giving more focus on exploring the short-term financial decisions. Hence, the question has been raised regarding this tendency is: Does working capital management affect firm value and profitability? As the papers [2] [3] [4] [5] [6] have shown.

Anyhow, the paper [7] goes on to state that corporations can maximize their value and profitability by having an optimal level of working capital. While, on the other hand previous studies tend to use different tools aiming at measuring the efficiency in the working capital management. Thus, it is worth mentioning these famous tools which are:- a) net trade cycle [8] [9], b) cash conversion cycle [3] [6] [10] [11]. Indeed, this analysis shows us that the vast majority of the researchers measure working capital management efficiency by using the cash conversion cycle. Accordingly, this paper follows the aforementioned researchers by adopting the cash conversion cycle as a variable represents the working capital management. For instance, the paper [12] proves that the cash conversion cycle is considered as an influential instrument aims at measuring the corporation adequacy in managing its working capital. As well, the papers [2] [6] [13] demonstrate that a corporation with a lower cash conversion cycle in days is more efficient considering that it turns its working capital more times per year, and allows it to create more revenues per assets invested. Also, the paper [14] shows that the negative value of the CCC represents the number of days a company has received cash from sales before the payment for suppliers. Whereas, the papers [11] [14] show that a positive value of the CCC indicates that the number of days a company must borrow while awaiting payment from customers. In contrast, the papers [6] [10] [15] show that a corporation can improve the cash conversion cycle by recognizing the following set of findings: a- reducing the amount of time that goods are held in inventory b- collecting the receivables more quickly c- paying liabilities more slowly. As well, the paper [15] explains that the theory of the working capital management says that the relationship between current assets and current liabilities is a key theme of the theory. Hence, this theory describes how working capital should be managed. It has also shown the benefits in terms of liquidity, solvency, efficiency, profitability, and shareholders wealth maximization.

However, previous and current international studies introduce significant evidences on the impact of the working capital management on the stock prices. In comparison, the reality reflexes that Palestine suffers from a long-term lack of empirical studies that case exploring the impact of working capital management on the company's stock prices of the listed corporations on the Palestine Exchange; PEX. As a result, this paper comes as a pressing need to explore this significant issue adhering to the reality of the listed industrial corporations on the PEX.

The findings of this paper will be used as real evidence from Palestine on the impact of the working capital efficiency of the stock returns.

In addition, it should be noticed that the results of this study assist the users in evaluating the

stock prices of a corporation. It also comes to sort out the stock evaluation process weaknesses so as to enable both the policy makers and decision-takers to draw the correct conclusion. This paper, on the first hand, follows the previous studies regarding the methodology and statistical techniques.

However, the content of this study includes six sections. Hereinafter is a list of these sections: Section (1) an introduction, section (2) addresses the previous literatures, section (3) explains the hypotheses of the study, section (4) addresses data and methodology, section (5) presents the results, and section (6) reports the conclusion.

2. Previous Literatures

The international empirical evidences on the impact of the working capital management on the stock returns and profitability prove that an optimal level of working capital will maximize the fair market value and profitability of a firm. Thus, this part clarifies the findings of a set of selected international proven literatures.

In the United States, for instance, the papers [2] [13] show that a firm can maximize the earnings and stock returns if the cash conversion cycle is managed in days [CCC] correctly. Furthermore, the paper [16] shows that the cash conversion cycle, is negatively related to net profitability for the corporations that listed on the London Stock Exchange. In addition, the paper [17] examines the impact of the working capital management on the performance of the industrial corporations listed on East African Stock Exchange. The paper also states that there is a positive impact of well-managed working capital on the performance. Then it illustrates that the companies should shorten the CCC by keeping the receivables' collection period, payables' deferral period and inventory holding period to the optimum level. However, In Pakistan, the paper [1] concludes that there is a strong positive impact of a highly managed working capital on the stock returns for the companies that listed on Karachi Stock Exchange. Also, in Brazil the paper [6] provides evidence highlighting that the working capital management increase the company value of the Brazilian public companies listed on BM & FBOVESPA. Then, the paper [18] provides strong evidence that the working capital management is positively related to stock prices of the corporations listed on Tehran Stock Exchange. The findings of paper [8] show that the working capital management has significant influence on corporations' value of the non-financial institutions that listed on Karachi Stock Exchange [KSE]. It also illustrates that the financial managers can increase value of a corporation by reducing their inventory size, cash conversion cycle and net trading cycle of the listed corporations in the KSE. Also, the paper [19] shows a negative significant relationship exists between cash conversion cycle in days (CCC) and firm value of the listed

corporations on Tehran Stock Exchange. The previous result shows that inefficiency in working capital management leads to a low performance. Likewise, the paper [12] reveals that an efficiency in the management of the working capital leads to high performance and profitability of the listed companies on the Johannesburg Stock Exchange. Moreover, the paper [10] points out that working capital management as represented by the cash conversion cycle, sales growth and lesser debtors' collection period impacts on beer brewery firms' profitability. As well, the paper [20] shows that the cash conversion cycle and all its major components (days in inventory, days' sales outstanding and creditors' payment period) were related with the firm's profitability and value of the listed companies on the Cyprus Stock Exchange. Then, the paper [5] demonstrates that managers can create value by reducing their inventories and the number of days for which their accounts are outstanding of the Spanish firms. Moreover, shortening the cash conversion cycle in days also improves the firm's profitability. In Pakistan, the paper [21] shows that the efficient working capital management leads to high profitability and firm value of the listed corporations on the Karachi Stock Exchange. In addition, the paper [11] concludes that the efficient management of working capital did not have any influence on stock returns of the listed corporations on Tehran Stock Exchange. However, this conclusion refers to a set of factors such as: special features of each industry, policies imposed by government, capital market inefficiency and many other variables.

Having explained all this, the analysis of the aforementioned studies illustrates that the working capital management efficiency improves the financial performance and stock prices of the listed companies on the securities markets. Similarly, high portion of the emerging markets studies come with similar conclusions. In other words, the results of this paper will meet the explanation of the previous studies.

3. The Hypotheses

The main purpose of this study targets exploring the impact of the working capital management efficiency on the stock returns of the industrial listed corporations on the PEX? Thus, it states the following hypotheses:-

Hypothesis one (H_1): There is no impact of cash conversion cycle in days (working capital management) on the stock returns of the industrial listed corporations on the PEX.

Hypothesis two (H_2): There is no impact of cash conversion cycle components (receivable turnover in days, inventory turnover in days, and payable turnover in days) on the stock returns of the industrial listed corporations on the PEX.
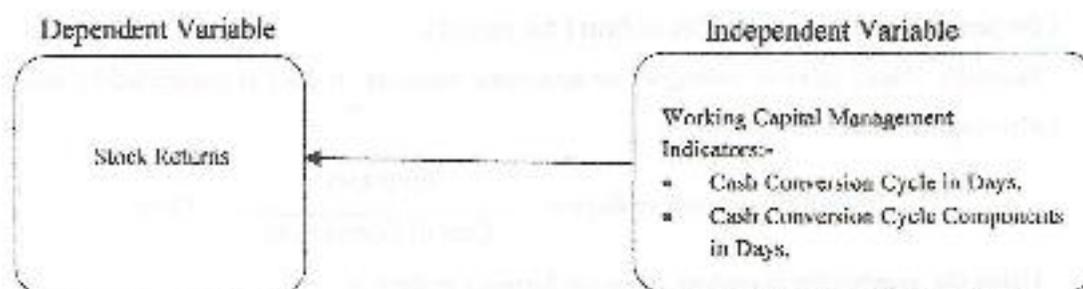
4. Data and Methodology

This section of the study exposes data, study model, study variables, and the econometric models that used to test the hypotheses as explained in the following.

4.1 Data

The population of this paper includes the listed industrial corporations on the Palestine Exchange [PEX] for 8-year period from 2007-2014. Consequently, the following terms are considered in choosing a sample. a- The corporation should be listed on the PEX. b- The corporation must be industrial. c- Corporation's stock is traded. Hence, 10 corporations meet the previous terms. By way of illustration, the collected data are taken from the website of the PEX [www.pex.ps], companies guide, in addition to the financial reports of the industrial corporations.

4.2 Study Model

Presented below is the modeling of study hypotheses based on the previous studies that taken place in the international capital markets.

Dependent Variable: Stock Returns

Independent Variable: Working Capital Management Indicators:-
- Cash Conversion Cycle in Days.
- Cash Conversion Cycle Components in Days.

4.3 Study Variables

This part exemplifies the variables that test the hypotheses of this paper. Below are the study variables definitions.

4.3.1 The Dependent Variable

This study employs one independent variable which is (the stock returns). The measurements of stock returns are explained as in the following statement:

$R_{it} = Log(P_t/P_{t-1})$. Where: R_{it}: Returns of stock I in period t, P_{it}: Stock's price year end of firm I for period t, P_{it-1}: Stock's price year beginning of firm I for period t, and Log: The natural logarithm.

4.3.2 The Independent Variable

The hypotheses of this paper require designing two independent variables. These independent variables are: I- The cash conversion cycle in days. II- The components of cash conversion cycle; where the definitions of these independent variables are explained as in the

following:

I -The cash conversion cycle variable is measured using the following equation: Cash Conversion Cycle in Days = Receivable Turnover in Days + Inventory Turnover in Days - Payable Turnover in Days. Using the symbol the cash conversion cycle formula is: $CCC_{it} = ARTD_{it} + ITD_{it} - PTD_{it}$. Where: CCC_t: cash conversion cycle in days of firm I for period t, $ARTD_{it}$: Receivables turnover in days of firm I for period t, ITD_{it}: Inventory turnover in days of firm I for period t, PTD_{it}: Payables turnover in days of firm I for period t.

II -The three components of the CCC are computed using the following equations:-

Firstly -Days sales outstanding or receivables turnover in days or average collection period is computed by using the following formula:

$$\text{Receivables turnover in days} = \frac{\text{Receivables}}{\text{Net Sales}} * 365$$

Using the symbol the receivables turnover formula in days is:

$$ARTD_{it} = \frac{AR_{it}}{NS_{it}}$$

Where: RTD_{it}: Receivables turnover in days of firm I for period t, AR_{it}: Receivables of firm I for period t, and NS_{it}: Net Sales of firm I for period t.

Secondly -Days sales in inventory or inventory turnover in days is computed by using the following formula:

$$\text{Inventory turnover in days} = \frac{\text{Inventory}}{\text{Cost of Goods Sold}} * 365$$

Using the symbol the inventory turnover formula in days is:

$$ITD_{it} = \frac{I_{it}}{COGS_{it}}$$

Where: ITD_{it}: Inventory turnover in days of firm I for period t, I_{it}: Inventories of firm I for period t, and $COGS_{it}$: Cost of sales or cost of goods sold of firm I for period t.

Thirdly--Days payables outstanding or payables turnover in days or average payment period (in days) is computed by using the following formula:

$$\text{Payables turnover in days} = \frac{\text{Payables}}{\text{Cost of Goods Sold}} * 365$$

Using the symbol the Payables turnover formula in days is:

$$PTD_{it} = \frac{P_i}{COGS_{it}}$$

Where: PTD_{it}: Payables turnover in days of firm I for period t, P_{it}: Payables of firm I for period t, and $COGS_{it}$: Cost of sales or cost of goods sold of firm I for period t.

4.4 Econometric Models

This section aims at creating the econometric models. Presented below are explanations around the hypotheses and its econometric models. The first hypothesis comes to examine the impact of cash conversion cycle in days on the stock returns. This hypothesis is examined using model number 1.

$$R_{it} = \varepsilon_0 + \varepsilon_1 CCC_{it}$$
(Model 1)

Where: R_{it}: Returns of stock I in period t, CCC_{it}: cash conversion cycle in days of firm I for period t, ε_0: Constant, and ε_1: The independent variable response coefficient.

The theory of an efficient working capital management says that a corporation with a lower CCC in days is more efficient [2] [3] [6]. Accordingly, if the sign of the CCC response coefficient [ε_1] is negative then the practice matches the theory. The second hypothesis comes to examine the impact of CCC components in days on the stock returns. Anyway, the second hypothesis will be tested using model 2. Table 1 shows the second hypothesis testing model.

Table 1: The second hypothesis testing model

The hypothesis	Model	Model #
(H_{2-1}): There is no impact of working capital components (ARTD, ITD, and PTD) on the stock returns of the industrial listed corporations in the PEX.	$R_{it} = \varepsilon_0 + \varepsilon_1 ARTD_{it} + \varepsilon_2 ITD_{it} + \varepsilon_3 PTD_{it}$	(Model 2)

Where: R_{it}: Returns of stock I in period t, P, $ARTD_{it}$: Receivables turnover in days of firm I for period t, ITD_{it}: Inventory turnover in days of firm I for period t, PTD_{it}: Payables turnover in days of firm I for period t, ε_0: Constant, and ε_1, ε_2 and ε_3: The independent variables response coefficients.

The papers [1] [2] [3] [5] [6] [16] [19] [20] [21] show that the firm runs its working capital in efficient way if the sign of the ARTD response coefficient is negative and statistically is significant, the sign of the ITD response coefficient is negative and statistically is significant, and the sign of the PTD response coefficient is positive and statistically is significant.

5. The Results

This part displays the descriptive statistics and hypotheses testing outcomes. It employs the econometric methods which are used, for instance, by authors in the [6] [19] [20] [21]. Presented below are the findings of this paper.

5.1 The Descriptive Statistics

Table 2 shows the summary statistics of stock returns variable [R] for the annual and pooled data of 10 industrial listed corporations on the PEX from 2007-2014, 80 firm-year. As well, the mean of the R is found between -0.039 to 0.041. As a general conclusion, the mean of pooled data is 0.019. Furthermore, the Kolmogorov–Smirnov [KS] test of normality shows

that the R variable follows the normal distribution because α is greater than 0.05. The hypothesis of the KS test for normality states that: H_0: normal distribution, H_1: non-normal distribution. Moreover, a variable follows the normal distribution when α is more than 0.05 [22].

Table 2: Descriptive statistics (R)

Year	Number of Observations	Mean	Maximum Observation	Minimum Observation	Standard Deviation	K-S Z test	Probability α
2007	10	0.023	0.057	-0.017	0.024	0.829	0.489
2008	10	-0.039	0.148	-0.184	0.106	0.367	0.999
2009	10	0.031	0.279	0.039	0.096	1.103	0.176
2010	10	0.118	0.308	-0.063	0.141	0.527	0.899
2011	10	0.016	0.157	-0.299	0.133	0.592	0.874
2012	10	-0.041	0.089	-0.165	0.075	0.700	0.711
2013	10	-0.001	0.082	-0.091	0.066	0.984	0.288
2014	10	0.045	0.218	-0.178	0.130	0.607	0.525
Pooled	80	0.019	0.308	-0.299	0.111	0.915	0.373

Table 3 shows the summary statistics of account receivables turnover in days [ARTD] for the annual and pooled data of 10 industrial listed corporations on the PEX from 2007-2014, 80 firm-year. As well, the mean of the ARTD variable is found between 108.265 to 505.698. As a general conclusion, the mean of pooled data is 181.49. What's more, the Kolmogorov–Smirnov test of normality shows that the ARTD variable follows the normal distribution because α is greater than 0.05.

Table 3: Descriptive statistics (ARTD)

Year	Number of Observations	Mean	Maximum Observation	Minimum Observation	Standard Deviation	K-S Z test	Probability α
2007	10	198.629	831.175	22.334	237.448	0.949	0.329
2008	10	198.004	4.626	480.168	151.478	0.911	0.378
2009	10	108.265	266.101	33.977	78.141	0.610	0.850
2010	10	119.160	284.406	3.008	100.883	0.574	0.896
2011	10	505.698	2761.713	43.058	850.001	1.004	0.660
2012	10	124.854	304.811	25.278	100.036	0.666	0.767
2013	10	127.553	269.791	18.558	94.951	0.984	0.288
2014	10	117.817	290.064	24.839	109.307	0.612	0.535
Pooled	80	181.249	2761.713	3.008	335.348	2.661	0.000

Table 4 shows the summary statistics of inventory turnover in days [ITD] for the annual and pooled data of 10 industrial listed corporations on the PEX from 2007-2014, 80 firm-year. As well, the mean of the ITD variable is found between 125.744 to 153.164. As a general conclusion, the mean of pooled data is 139.691. What's more, the Kolmogorov Smirnov test of normality shows that the ITD variable follows the normal distribution because α is greater than 0.05.

Table 4: Descriptive statistics (ITD)

Year	Number of Observations	Mean	Maximum Observation	Minimum Observation	Standard Deviation	K-S Z test	Probability α
2007	10	142.048	265.127	31.611	54.420	0.634	0.786
2008	10	153.164	282.133	38.034	73.326	0.346	0.983
2009	10	138.366	260.135	38.108	72.157	0.494	0.967
2010	10	144.480	320.057	43.1445	86.812	0.545	0.924
2011	10	125.744	283.006	30.139	81.066	0.526	0.950
2012	10	152.084	284.549	53.133	79.177	0.525	0.942
2013	10	132.178	247.036	36.736	70.810	0.644	0.801
2014	10	148.425	280.962	35.810	87.232	0.660	0.778
Pooled	80	139.691	320.057	30.139	73.325	0.701	0.709

Table 5 shows the summary statistics of payable turnover in days [PTD] for the annual and pooled data of 10 industrial listed corporations on the PEX from 2007-2014, 80 firm-year. As well, the mean of the PTD variable is founded between 65.500 to 84.401. As a general conclusion, the mean of pooled data is 75.270. In addition, the Kolmogorov–Smirnov test of normality shows that the PTD variable follows the normal distribution because α is greater than 0.05.

Table 6 shows the summary statistics of cash conversion cycle in days [CCC] for the annual and pooled data of 10 industrial listed corporations on the PEX from 2007-2014, 80 firm-year. As well, the mean of the CCC variable is found between 174.253 to 558.230. As a general conclusion, the mean of pooled data is 245.670. Moreover, the Kolmogorov–Smirnov test of normality shows that the CCC variable follows the normal distribution because α is greater than 0.05.

Table 5: Descriptive statistics (PTD)

Year	Number of Observations	Mean	Maximum Observation	Minimum Observation	Standard Deviation	K-S Z test	Probability α
2007	10	84.401	164.826	14.549	55.209	0.780	0.577
2008	10	67.194	127.942	20.606	31.682	0.544	0.929
2009	10	72.378	129.428	18.199	56.688	0.525	0.946
2010	10	80.748	137.780	24.842	45.888	0.696	0.714
2011	10	73.212	167.981	14.179	54.996	0.775	0.589
2012	10	77.921	169.555	19.448	56.578	0.529	0.942
2013	10	65.500	159.381	22.329	44.887	0.701	0.709
2014	10	80.805	230.851	13.161	74.381	0.911	0.378
Pooled	80	75.270	230.851	13.161	49.590	1.334	0.570

Table 6: Descriptive statistics (CCC)

Year	Number of Observations	Mean	Maximum Observation	Minimum Observation	Standard Deviation	K-S Z test	Probability α
2007	10	256.316	763.509	55.530	207.717	0.945	0.333
2008	10	234.034	454.836	44.022	141.779	0.558	0.915
2009	10	174.253	377.203	-11.936	117.849	0.551	0.922
2010	10	182.893	480.986	-2.673	159.088	0.946	0.927
2011	10	558.230	2808.221	12.379	861.350	1.020	0.239
2012	10	178.988	445.319	22.379	138.057	0.689	0.730
2013	10	185.493	14.682	416.370	120.879	0.744	0.637
2014	10	192.154	767.762	44.907	110.185	0.514	0.952
Pooled	80	245.670	2808.221	-11.932	340.165	2.007	0.001

5.2 The Correlation Matrix

Table 7 shows the results of Pearson correlation test for the annual and pooled time series of R, ARTD, ITD, PTD and CCC. The correlation test demonstrates the following findings. Firstly, there is a negative but insignificant relationship between the stock returns (R) and the receivable turnover in days (ARTD) of the pooled data; whereas the correlation coefficient is -0.103 and statistically is insignificant at 0.05. These outcomes indicate that the receivable turnover in days doesn't influence the stock returns of the industrial listed corporations on the PEX. Secondly, the correlation analysis shows a negative but insignificant relationship between the stock returns and the inventory turnover in days (ITD) of the industrial listed companies on the PEX; whereas the pooled data correlation coefficient is -0.133 and statistically is insignificant at 0.05.

Thirdly, there is a positive but insignificant relationship between the stock returns and the payable turnover in days of the industrial listed companies on the PEX. What is more, the pooled data correlation coefficient is 0.028 and statistically is insignificant at 0.05. At last but not least, there is a negative but insignificant relationship between the stock returns and the cash conversion cycle of the industrial listed companies on the PEX. Besides, the pooled data correlation coefficient is -0.134 and statistically is insignificant at 0.05. The previous results indicate that the industrial listed corporations on the PEX are inefficient in managing the working capital.

Table 7: Pearson's correlation matrix (R, ARTD, ITD, PTD&CCC)

Year	Variable	R	ARTD	ITD	PTD	CCC
Pooled	R	1				
	ARTD	-0.103	1			
		0.364				
	ITD	-0.133	0.165	1		
		0.238	0.144			
	PTD	0.028	0.272*	0.503**	1	0.230*
		0.806	0.015	0.000		0.040
	CCC	-0.134	0.982**	0.305**	0.230*	
		0.235	0.000	0.006	0.040	

*** Significant at 0.01, ** Significant at 0.05, and * Significant at 0.10

5.3 The Findings

Presented below are the outcomes of the hypotheses.

5.3.1 Findings of Hypothesis 1

Table 8 displays the summary statistics of the OLS, which inspects the first hypothesis. The first hypothesis comes to examine the impact of cash conversion cycle (working capital management) on the stock returns of the industrial listed corporations on the PEX for 8 years from 2007-2014. The statistics of the pooled time series, on the first hand, find a negative impact of the cash conversion cycle (CCC) on the stock returns (R). On the second hand, the value of the R^2 is 0.018 and the F value is 1.43. Also, the CCC response coefficient [ϵ_1=

0.0054] is negative but statistically is insignificant at 5%. The previous outcomes indicate that the industrial listed corporations on the PEX manage the working capital in inefficient way.

Table 8: The impact of cash conversion cycle (CCC) on the stock returns (R) of the industrial listed corporations on the PEX for 8 years from 2007-2014. $R_{it} = \varepsilon_0 + \varepsilon_1 CCC_{it}$ (n)

Year	Constant (ε_0)	Coefficient (ε_1)	F-Value	R^2	Adjusted R^2
Pooled	0.03 (1.967)	-0.0054 (-1.197)	1.432	0.013	0.005

(n): *** Significant at 0.01, ** Significant at 0.05, and * Significant at 0.10.

5.3.2 Findings of Hypothesis Number 2

Table 9 displays the summary statistics of the OLS that inspects the second hypothesis. Hence, the second hypothesis comes to examine the impact of cash conversion cycle components (ARTD, ITD, and PTD) on the stock returns (R) of the industrial listed corporations on the PEX for 8 years from 2007-2014. The statistics of the pooled time series indicate that there is no impact of cash conversion cycle components on the stock returns of the industrial listed corporations on the PEX. Therefore, the value of the R squared is 0.042 and the F-value is 1.104. In addition, the ARTD response coefficient [ε_1=-0.00013] is negative but statistically is insignificant at 5%. Also, the ITD response coefficient [ε_2=0.00] is zero but statistically is insignificant at 5%. In addition, the PTD response coefficient [ε_3=0.00] is zero but statistically is insignificant at 5%. The previous outcomes prove that the industrial listed corporations on the PEX manage the working capital in inefficient way.

Table 9: The impact of cash conversion cycle components (ARTD, ITD, and PTD) on the stock returns (R) of the industrial listed corporations on the PEX for 8 years from 2007-2014.

$$R_{it} = \varepsilon_0 + \varepsilon_1 ARTD_{it} + \varepsilon_2 ITD_{it} + \varepsilon_3 PTD_i \text{ (n)}$$

Year	Constant (ε_0)	Coefficient (ε_1)	Coefficient (ε_2)	Coefficient (ε_3)	F-Value	R^2	Adjusted R^2
Pooled	0.041 (1.434)	-0.00013 (-0.971)	0.000 (-1.485)	0.000 (1.168)	1.104	0.042	0.004

(n): *** Significant at 0.01, ** Significant at 0.05, and * Significant at 0.10.

6. Conclusion

This paper aims at examining the impact of the working capital management on the stock prices of the listed industrial corporations on the Palestine Exchange; PEX. Hence, this study includes a sample from the financial data of the industrial listed corporations on the PEX from 2007-2014 so as to accomplish the previous objective. It also employs a number of statistical tests (descriptive statistics, Pearson's correlation, and the linear regression tests). Consequently, ten industrial listed Palestinian corporations are selected so as to examine the study hypotheses [80 firm-years]. Anyway, the study findings state the following outcomes:-

Firstly: The industrial listed corporations on the PEX are inefficient in managing the working capital because the average CCC in days is high and positive. Secondly: There is a negative but insignificant impact of the cash conversion cycle (CCC) on the stock returns of the industrial listed corporations on the PEX. This outcome refers to the inefficiency in managing the working capital. Thirdly: There is no impact of cash conversion cycle components (ARTD, ITD, and PTD) on the stock returns of the industrial listed corporations on the PEX. Hence, this result proves that the listed industrial corporations on the PEX are inefficient in managing the working capital. Finally yet importantly, this valuable study comes with complete evidence that leads to highly recommends the industrial listed corporations on the PEX to intensify their efforts toward dealing with the components of enhancing the working capital management efficiently. It also recommends the Palestine Exchange to work on legislating laws that offer lawful enforcement targets obliging the listed corporations on the Palestine Exchange to adopt efficient policy so as to organize and improve the working capital management strategy. And now, last but not least, it recommends the investors to avoid completely relying on the working capital indicators in predicting the stock prices.

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