



**A CASE STUDY OF THE IMPACT OF WORKING CAPITAL
MANAGEMENT PRACTICES ON FIRM LIQUIDITY OF
XINGHE RETAIL GROUP**

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**AN INDEPENDENT STUDY SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF
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This Independent Study Has Been Approved as a Partial Fulfillment of the
Requirements for the Degree of Master of Business Administration

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ABSTRACT

Working capital management plays a critical role in determining the financial health of retail enterprises, particularly in emerging markets such as China, where liquidity pressures are common due to competitive sales strategies and fluctuating consumer demand. This study focused on Xinghe Retail Group, a Chinese retail company, to investigate how the efficiency of managing inventory turnover period, accounts receivable period, and accounts payable period affects firm liquidity within the framework of Cash Conversion Cycle Theory.

The objectives of this study was to examine the relationship between inventory turnover period and firm liquidity, the relationship between accounts receivable period and firm liquidity, and the relationship between accounts payable period and firm liquidity.

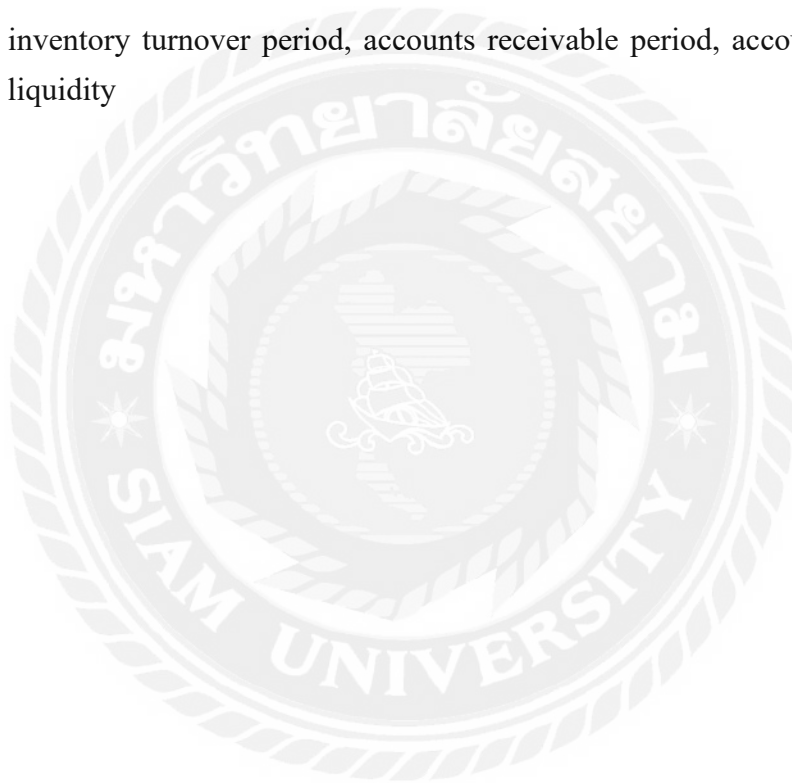
A quantitative research design was adopted for this study. Financial and operational data from fiscal years 2019 to 2024 were analyzed alongside survey responses collected from 120 employees of Xinghe Retail Group, selected through stratified random sampling. A structured questionnaire was employed as the primary instrument, supported by secondary data from company financial statements. Data collection was conducted electronically, and analysis included descriptive statistics, Pearson correlation coefficients, and multiple linear regression models, all processed using SPSS.

The findings revealed that inventory turnover period and accounts receivable period have significant negative effects on firm liquidity, indicating that longer inventory cycles and delayed receivable collection weaken the company's ability to meet short-term obligations. In contrast, accounts payable period shows a positive

effect on liquidity, suggesting that extending payment terms with suppliers contributes to stronger cash positions, although the explanatory power of payables is less than that of inventory and receivables.

This study concludes that effective working capital management is essential for maintaining liquidity in retail enterprises. The results confirm the applicability of Cash Conversion Cycle Theory in the Chinese retail context and recommend that companies strengthen inventory forecasting, tighten receivable collection practices, and strategically manage payables to balance liquidity needs with supplier relationships. Future research may expand to comparative studies across industries and adopt longitudinal designs to further validate these relationships.

Keywords: inventory turnover period, accounts receivable period, accounts payable period, firm liquidity



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CHEN XIAOLONG

DECLARATION

I, CHEN XIAOLONG, hereby declare that this Independent Study entitled “A Case Study of the Impact of Working Capital Management Practices on Firm Liquidity of Xinghe Retail Group” is an original work and has never been submitted to any academic institution for a degree.

(CHEN XIAOLONG)

JAN 11, 2026



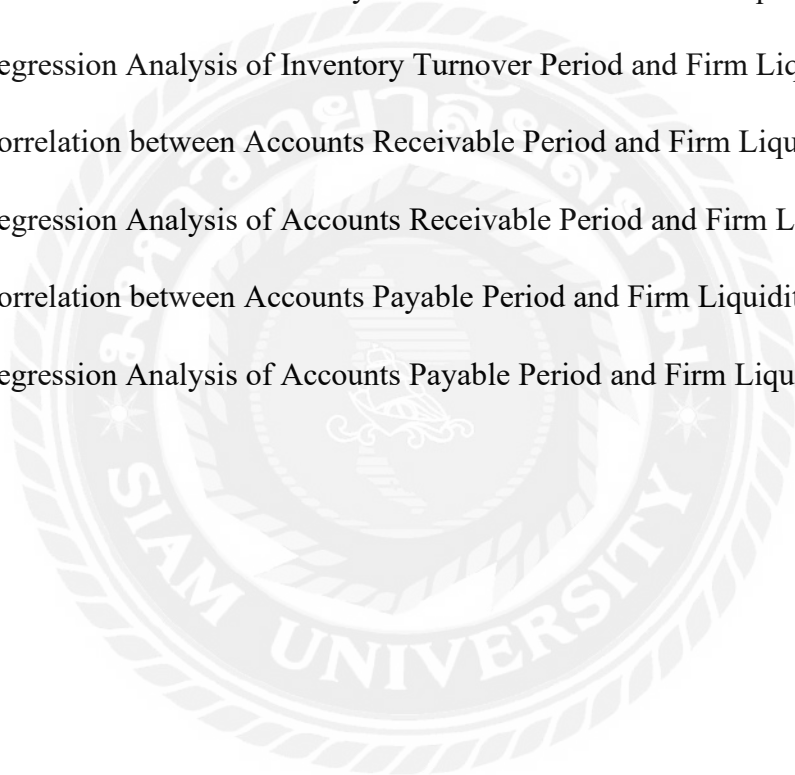
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Chapter 1 Introduction

1.1 Background of the Study

Working capital management has long been recognized as a central component of corporate financial strategy, particularly in retail businesses where cash flow dynamics are complex and highly sensitive to market fluctuations. The concept of working capital management refers to the efficient handling of current assets and current liabilities to ensure that a firm maintains sufficient liquidity to meet its short-term obligations while optimizing operational efficiency (Liu & Zhang, 2020). In the Chinese retail industry, the rapid growth of consumer demand, coupled with increasing competition from both domestic and international players, has made working capital management an essential determinant of firm liquidity and long-term sustainability (Chen, 2021).

Cash Conversion Cycle (CCC) Theory provides a widely accepted framework to examine the efficiency of working capital management. The CCC measures the time lag between the outflow of cash for purchasing inventory and the inflow of cash from customers, capturing three essential dimensions: the inventory turnover period, accounts receivable period, and accounts payable period (Wang, 2019). In the context of Chinese retail enterprises, shortening the CCC has been associated with enhanced financial stability and improved liquidity ratios, allowing firms to maintain flexibility in responding to changing market conditions (Zhao & Huang, 2022).

Retail enterprises such as Xinghe Retail Group, operating in highly competitive markets, face unique challenges in balancing inventory levels, extending credit to customers, and negotiating payment terms with suppliers. Previous studies in China highlight that excessive inventory turnover periods often tie up capital and increase liquidity risks, particularly when consumer preferences shift rapidly (Sun & Li, 2023). Similarly, elongated accounts receivable periods may exacerbate liquidity constraints, as firms struggle to convert sales into cash flows (Deng, 2020). Conversely, an extended accounts payable period can temporarily improve liquidity by delaying cash outflows, though it may also strain supplier relationships (Luo, 2018).

International research also emphasizes the importance of CCC in evaluating firm liquidity. Deloof (2019) demonstrated that firms with efficient working capital practices achieve stronger liquidity positions and higher profitability. Moreover,

García-Teruel and Martínez-Solano (2021) found that retail firms in emerging economies face even greater liquidity pressures due to volatile demand and limited access to external financing. These findings resonate with the Chinese context, where retail firms must adopt rigorous working capital management strategies to survive and expand in a rapidly evolving market landscape.

Examining the impact of working capital management practices on firm liquidity, particularly through the lens of the Cash Conversion Cycle, is both timely and essential. This study focused on Xinghe Retail Group as a case study to investigate how the three components of CCC—inventory turnover period, accounts receivable period, and accounts payable period—affect firm liquidity. By integrating theoretical perspectives and empirical evidence, this research aimed to provide insights into optimizing liquidity management in the Chinese retail sector.

1.2 Questions of the Study

Despite steady growth in China's retail sector, Xinghe Retail Group has encountered persistent challenges related to its working capital management. Over the past five years, the company has faced increasing pressure from rising inventory levels, delayed receivables, and tightening supplier credit terms. These challenges have led to fluctuating liquidity ratios, suggesting that the firm's ability to meet short-term obligations is under strain (Li & Zhou, 2020). In particular, the accumulation of slow-moving inventory has tied up significant amounts of capital, reducing cash available for operational needs (Wu, 2021). Similarly, the lengthening of accounts receivable periods has created cash flow gaps, especially when customers delay payments, which is a common issue in China's retail markets with intense price competition and customer bargaining power (Zhang & Chen, 2022). At the same time, although extending accounts payable can provide temporary relief for liquidity, excessive reliance on supplier credit has raised concerns about weakening supplier trust and deteriorating long-term partnerships (He & Liu, 2019).

Cash Conversion Cycle (CCC) Theory offers a valuable framework for addressing these issues, as it emphasizes the importance of optimizing the flow of cash across inventory, receivables, and payables to enhance firm liquidity (Deloof, 2020). By applying CCC principles, Xinghe Retail Group may shorten its cash cycle, reduce liquidity risks, and maintain financial flexibility in an increasingly volatile market environment (García-Teruel & Martínez-Solano, 2021). However, it remains unclear how each component of the CCC specifically affects the company's liquidity

performance and whether targeted improvements in these areas could strengthen its financial stability.

Against this backdrop, this study sought answer three guiding research questions.

1. What is the impact of the inventory turnover period on the firm's liquidity?
2. What is the impact of the accounts receivable period on the firm's liquidity?
3. What is the impact of the accounts payable period on the firm's liquidity?

1.3 Objectives of the Study

1. To examine the relationship between inventory turnover period and firm liquidity.
2. To examine the relationship between accounts receivable period and firm liquidity.
3. To examine the relationship between accounts payable period and firm liquidity.

1.4 Scope of the Study

This study was limited in scope to investigating the impact of working capital management practices on the liquidity of Xinghe Retail Group, a Chinese retail enterprise selected as the case study. The research focused on three core components of Cash Conversion Cycle Theory, namely inventory turnover period, accounts receivable period, and accounts payable period, and their influence on firm liquidity as measured by financial indicators including the current ratio and quick ratio. The analysis was confined to a five-year period covering fiscal years 2019 to 2024, during which time the company's financial statements and operational data were examined to ensure consistency and comparability. The research adopted a quantitative approach, employing descriptive statistics, correlation analysis, and multiple regression models to establish the relationships between the variables.

While the findings of this study provide valuable insights into the working capital practices of Xinghe Retail Group, they may not be fully generalizable to all retail firms in China due to differences in scale, market position, and operational structures. However, the case study approach enables an in-depth exploration of the challenges and strategies specific to one representative company, offering implications for similar firms operating in competitive retail environments. Furthermore, the study was limited to financial and operational data and did not include qualitative perspectives such as

managerial opinions or customer behaviors, which could provide additional context. The scope was therefore clearly defined to remain aligned with the research objectives and hypotheses, ensuring a focused and systematic analysis of the relationship between working capital management and firm liquidity.

1.5 Significance of the Study

The significance of this study lies in its contribution to both theoretical understanding and practical application of working capital management within the context of the Chinese retail industry. From a theoretical perspective, the study deepens the application of Cash Conversion Cycle Theory by empirically examining how its three key components—inventory turnover period, accounts receivable period, and accounts payable period—affect firm liquidity. While CCC has been widely acknowledged in international research, there is still a relative scarcity of empirical evidence from Chinese retail enterprises, where market dynamics and financing structures differ significantly from those in developed economies. By focusing on Xinghe Retail Group as a case study, this research provides context-specific evidence that enhances the literature on working capital management in emerging markets and contributes to a more nuanced understanding of liquidity management under competitive and rapidly changing business environments.

From a practical perspective, this study provides insights that are directly relevant to managers and financial decision-makers in the retail sector. The findings can guide firms in identifying which components of working capital exert the greatest influence on liquidity and how adjustments in inventory management, credit policies, or supplier negotiations may improve financial stability. For Xinghe Retail Group in particular, the results offer actionable recommendations to address existing inefficiencies in inventory turnover and accounts receivable collection, while strategically leveraging accounts payable management without jeopardizing supplier relationships. More broadly, the conclusions of this study can serve as a reference for other Chinese retail enterprises seeking to optimize their liquidity positions, strengthen financial resilience, and remain competitive in a marketplace increasingly characterized by uncertainty and volatility.

1.6 Definition of Key Terms

Inventory Turnover Period

In this study, inventory turnover period refers to the average number of days required for Xinghe Retail Group to sell its inventory. It is calculated based on the

company's cost of goods sold and average inventory levels. A longer inventory turnover period indicates slower inventory movement, while a shorter period reflects more efficient inventory management.

Accounts Receivable Period

Accounts receivable period refers to the average number of days taken by Xinghe Retail Group to collect payments from customers after a sale is made. It is measured by comparing net credit sales to average accounts receivable. A longer accounts receivable period implies delayed cash inflows, while a shorter period suggests faster collection and better liquidity.

Accounts Payable Period

Accounts payable period refers to the average number of days the company takes to pay its suppliers for goods and services purchased on credit. It is calculated by dividing accounts payable by average daily purchases. A longer accounts payable period means the company delays cash outflows, which may temporarily improve liquidity, while a shorter period suggests quicker payments to suppliers.

Firm Liquidity

Firm liquidity in this study refers to Xinghe Retail Group's ability to meet short-term financial obligations using available current assets. It is operationally measured through commonly used financial ratios such as the current ratio and quick ratio. Higher liquidity indicates stronger short-term financial health, while lower liquidity reflects potential difficulties in covering immediate liabilities.

Cash Conversion Cycle (CCC)

The cash conversion cycle is a comprehensive measure of working capital efficiency, calculated as the sum of the inventory turnover period and accounts receivable period, minus the accounts payable period. It represents the length of time it takes for cash invested in operations to be recovered through sales and collections. A shorter CCC generally signals more efficient working capital management and better liquidity.

Chapter 2 Literature Review

This chapter presents a review of relevant literature to establish the theoretical and empirical foundations of the study. It begins with a discussion of prior research related to the key variables derived from Cash Conversion Cycle Theory. The review is organized around the four main keyconcepts that correspond to the independent and dependent variables of the study. The organization of this chapter ensures that each variable is thoroughly examined, allowing for a clear linkage between the research framework, the hypotheses, and the empirical analysis presented in later chapters.

2.1 Inventory Turnover Period

The inventory turnover period plays a critical role in determining the efficiency of working capital management, particularly in the retail industry where product variety and customer demand are highly dynamic. In essence, the inventory turnover period measures the average number of days required to sell goods and convert them into cash flows. A shorter turnover period typically indicates efficient inventory management and stronger liquidity, while a longer period suggests capital is tied up in stock, reducing cash availability for other operational needs. In the Chinese retail context, scholars have emphasized that excessive inventory accumulation is a common problem, often resulting from overestimation of consumer demand and limited integration of supply chain forecasting tools (Li & Sun, 2020).

Studies in China further demonstrate that an inefficient inventory turnover period can significantly constrain liquidity performance. For example, Zhao and Liu (2021) noted that listed retail firms with longer inventory cycles often faced declining current ratios, as capital was locked in unsold products and warehousing costs increased. Similarly, Wang (2022) observed that smaller retail chains were particularly vulnerable to liquidity pressures when inventory periods extended beyond seasonal sales cycles, leading to financial instability and higher reliance on external borrowing. These findings suggest that inventory management in Chinese retail enterprises is not only a logistical challenge but also a financial imperative for sustaining short-term solvency.

International literature also provides evidence on the influence of inventory turnover period on firm liquidity. Deloof (2019) reported that European retail firms with shorter inventory cycles enjoyed stronger liquidity positions and improved

profitability, highlighting the dual role of inventory efficiency in both operational and financial performance. García-Teruel and Martínez-Solano (2020) extended this argument by showing that emerging market firms often struggled to balance stock availability with liquidity needs, making the management of inventory turnover a critical factor for competitive survival. Although these studies were conducted outside of China, they support the broader theoretical claim of the Cash Conversion Cycle Theory that reducing the time capital remains tied in inventory enhances liquidity.

Recent Chinese studies have sought to integrate these insights with practical strategies for improvement. Xu (2023) argued that the adoption of digital inventory tracking and predictive analytics can significantly shorten the inventory turnover period, thereby strengthening liquidity. In a similar vein, Chen and Huang (2019) demonstrated that retail firms adopting just-in-time (JIT) systems experienced improved liquidity performance as inventory cycles shortened and capital efficiency increased. These findings underscore the importance of viewing the inventory turnover period not merely as an operational measure but as a strategic financial variable that directly influences a firm's ability to maintain adequate liquidity.

The literature suggests that the inventory turnover period is closely linked with firm liquidity, particularly in retail enterprises where sales volumes fluctuate and consumer demand is difficult to predict. Both domestic and international evidence consistently support the idea that efficient inventory management practices can shorten the cash conversion cycle, free up working capital, and thereby enhance liquidity. This relationship forms the foundation for the first hypothesis of this study, which posits a negative impact of inventory turnover period on firm liquidity.

2.2 Accounts Receivable Period

The accounts receivable period reflects the average number of days required for a firm to collect cash from its customers after a sale has been made. In retail enterprises, where sales are frequently conducted on credit to attract and retain customers, the length of this period directly influences the firm's liquidity. A shorter receivable period ensures that cash inflows are timely and consistent, thereby reducing liquidity risks, while a prolonged period often results in cash flow shortages and greater financial vulnerability. Within the Chinese retail industry, delayed collections have been identified as a recurring issue, particularly among firms that extend credit to maintain competitiveness in price-sensitive markets (Liu & Fang, 2020).

Empirical studies in China have consistently found a negative relationship between the accounts receivable period and firm liquidity. For instance, Zhang and Wu (2021) highlighted that retail companies with extended receivable cycles experienced lower quick ratios, demonstrating that delays in cash collection weakened their ability to cover short-term liabilities. Similarly, Li (2019) reported that aggressive credit policies designed to expand market share often led to higher accounts receivable but simultaneously created liquidity bottlenecks. This dilemma illustrates the trade-off faced by retail managers between sales growth and financial stability.

International literature reinforces these observations. Deloof (2020) argued that prolonged accounts receivable periods undermine liquidity by reducing the cash available for daily operations, which in turn increases reliance on external financing. Furthermore, García-Teruel and Martínez-Solano (2019) found that firms in emerging economies with longer receivable cycles faced not only liquidity pressures but also higher default risks from customers. These findings align with the theoretical framework of the Cash Conversion Cycle, which emphasizes that extended receivable periods lengthen the overall cycle, thus delaying cash recovery and constraining liquidity.

Recent research in China has focused on technological and managerial solutions to mitigate the challenges of long receivable periods. Chen and Zhou (2022) demonstrated that retail firms implementing electronic payment platforms significantly reduced collection times, which improved both liquidity and operational efficiency. In addition, Wang (2023) noted that the integration of credit risk assessment tools into sales management systems allowed companies to better evaluate customer creditworthiness, thereby reducing the likelihood of overdue receivables. These strategies suggest that managing accounts receivable effectively is not only a matter of financial policy but also a critical component of modern retail management practices.

The accounts receivable period is widely recognized as a determinant of firm liquidity. Both Chinese and international evidence indicate that elongated receivable cycles create substantial liquidity challenges, while efficient collection systems can strengthen financial resilience. This body of literature provides support for the second hypothesis of this study, which asserts that the accounts receivable period has a negative impact on firm liquidity.

2.3 Accounts Payable Period

The accounts payable period refers to the average number of days a firm takes to settle its obligations with suppliers after purchasing goods or services on credit. In retail enterprises, this period is a crucial determinant of cash flow management, as it directly affects the timing of cash outflows. A longer accounts payable period can temporarily improve liquidity by allowing firms to hold on to cash for a longer duration, while a shorter period may reduce financial flexibility but can strengthen supplier relationships. In the Chinese retail sector, the balance between extending payables and maintaining supplier trust has become a pressing issue, particularly as competition intensifies and suppliers demand stricter payment terms (Zhou & Li, 2020).

Several empirical studies in China highlight the dual nature of accounts payable on firm liquidity. Liu and Wang (2019) observed that firms extending their payables strategically improved current ratios in the short term, but excessive delays often resulted in higher supplier dissatisfaction and weakened bargaining power. Similarly, Chen (2021) pointed out that the overuse of supplier credit as a liquidity tool created financial strain when suppliers reduced credit lines or demanded early payments, thus exposing firms to sudden liquidity risks. These findings underscore the importance of managing accounts payable not only as a financial tactic but also as part of long-term supply chain cooperation.

International literature also supports the view that accounts payable plays a complex role in liquidity management. Deloof (2021) emphasized that while an extended payable period may support liquidity in the short term, it may also signal financial distress if firms rely excessively on delaying payments. Likewise, García-Teruel and Martínez-Solano (2020) argued that firms in emerging economies often depend heavily on trade credit due to limited access to bank financing, but this dependence can increase vulnerability to liquidity shocks when supplier credit terms are tightened. These findings suggest that the benefits of longer payable periods must be weighed carefully against potential risks to supplier relationships and long-term stability.

Recent research in China has explored methods to optimize payable management in retail firms. Xu and Zhao (2022) found that digital supply chain finance systems enabled companies to negotiate more flexible payment schedules with suppliers, thereby aligning liquidity needs with supplier expectations. In addition, Sun (2023) observed that cooperative agreements between large retailers and suppliers

improved trust, allowing for moderate extensions of accounts payable without damaging relationships. Such practices highlight that effective management of the accounts payable period requires balancing immediate liquidity benefits with long-term strategic considerations in supplier networks.

The accounts payable period is recognized as a critical factor influencing firm liquidity, with both positive and negative effects depending on how it is managed. Evidence from both domestic and international studies indicates that moderate extension of accounts payable can enhance liquidity, while excessive reliance on delaying payments may undermine supplier confidence and financial stability. This literature supports the third hypothesis of this study, which proposes that the accounts payable period has a positive impact on firm liquidity.

2.4 Firm Liquidity

Firm liquidity is commonly defined as the ability of a company to meet its short-term financial obligations using available current assets. It is a central measure of financial health, often expressed through indicators such as the current ratio and the quick ratio. In the context of retail enterprises, liquidity is especially significant due to high inventory volumes, fluctuating consumer demand, and frequent reliance on credit sales. A firm with sufficient liquidity can respond more flexibly to operational uncertainties, whereas inadequate liquidity may result in financial distress, even if the company demonstrates profitability on paper (Zhang & Liu, 2020).

Chinese scholars have highlighted that liquidity challenges are prevalent in the retail industry, where the balance between rapid sales expansion and financial stability is often difficult to achieve. Wang (2019) noted that while large retailers frequently pursue aggressive growth strategies, the accompanying increase in credit sales and inventory buildup reduces liquidity ratios, exposing firms to cash flow risks. Similarly, Zhao and Chen (2021) found that listed retail firms in China with declining liquidity ratios faced difficulties in financing daily operations, leading to increased dependence on short-term borrowing. These studies indicate that liquidity is not merely an accounting metric but also a critical factor influencing operational sustainability.

International studies echo the importance of liquidity management. Deloof (2020) emphasized that liquidity ratios provide a reliable measure of a firm's financial resilience, particularly in industries characterized by volatile demand. Furthermore, García-Teruel and Martínez-Solano (2022) observed that firms in emerging economies

with weak liquidity structures were more vulnerable to economic shocks, suggesting that liquidity should be treated as a buffer against financial uncertainty. Their findings align closely with the Cash Conversion Cycle framework, which regards liquidity as the ultimate outcome of efficient working capital practices.

Recent research in China has also explored strategies for strengthening liquidity. Li and Sun (2022) argued that integrating digital payment systems and financial technologies can significantly enhance liquidity by accelerating cash inflows and reducing transaction costs. In addition, Xu (2023) demonstrated that companies adopting proactive liquidity monitoring systems were better able to anticipate short-term cash shortages and adjust their working capital policies accordingly. These insights suggest that firm liquidity is not only an outcome of operational efficiency but also a function of strategic financial management.

Firm liquidity serves as the dependent variable in this study and represents the financial outcome most directly influenced by working capital management practices. Both domestic and international literature confirms that efficient management of inventory, receivables, and payables leads to stronger liquidity performance, which in turn supports firm stability and growth. This evidence reinforces the theoretical foundation of the study and justifies the empirical analysis of the relationship between working capital management practices and firm liquidity in the case of Xinghe Retail Group.

2.5 Conceptual Framework

The conceptual framework of this study is grounded in Cash Conversion Cycle (CCC) Theory, which emphasizes the efficiency of cash flow movement through a firm's operating cycle and its impact on liquidity. According to this framework, the three major components—inventory turnover period, accounts receivable period, and accounts payable period—interact to determine the overall efficiency of working capital management and ultimately influence firm liquidity (Wang & Zhao, 2021). By analyzing these variables together, CCC provides a comprehensive view of how operational practices shape financial outcomes in retail enterprises.

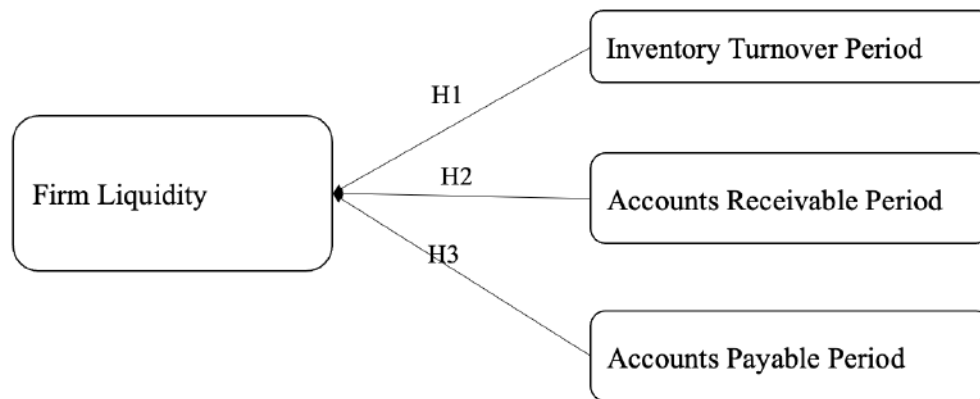


Figure 2.1 Conceptual Framework

Bringing these variables together, the CCC framework explains that firm liquidity improves when inventory turnover and accounts receivable periods are minimized, while a moderately extended accounts payable period can provide additional support. Firm liquidity, as the dependent variable, represents the company's capacity to meet short-term obligations and maintain financial flexibility in competitive markets. This conceptualization is consistent with both domestic and international evidence, which highlight that efficient working capital management is central to sustaining liquidity and ensuring operational stability (García-Teruel & Martínez-Solano, 2021). Accordingly, this study proposed a model in which inventory turnover period and accounts receivable period negatively affect firm liquidity, whereas accounts payable period has a positive impact, providing a testable structure for empirical analysis in the case of Xinghe Retail Group.

Chapter 3 Research Methodology

3.1 Research Design

This study adopted a quantitative research design to examine the relationships between working capital management practices and firm liquidity within the framework of Cash Conversion Cycle Theory. The design was chosen because quantitative methods allowed for measurable and objective analysis of financial variables, ensuring that the findings could be statistically tested and generalized within the scope of the case study. The approach relied on secondary financial and operational data obtained from Xinghe Retail Group, covering the fiscal years 2019 to 2024, as this data set provided consistency and continuity across multiple accounting periods. By focusing on five consecutive years, the design ensured that variations in liquidity outcomes could be systematically linked to changes in inventory turnover period, accounts receivable period, and accounts payable period.

This study incorporated descriptive statistics to outline the central tendencies and dispersions of each variable, while correlation analysis was employed to identify the strength and direction of relationships. Multiple linear regression models were then constructed to test the hypotheses regarding the impact of the three independent variables on firm liquidity. The choice of regression analysis was appropriate because it allowed for simultaneous evaluation of multiple predictors and their combined influence on the dependent variable. This statistical design was supported using SPSS and Microsoft Excel, which ensured accuracy and replicability in data processing.

Although the primary emphasis was on financial statements and operational data, a structured survey questionnaire was designed as a supplementary instrument to validate certain findings. The questionnaire targeted finance managers and accounting staff within Xinghe Retail Group, seeking their perceptions on inventory policies, receivable collection practices, and supplier credit arrangements. The survey was structured using closed-ended items based on a five-point Likert scale, which facilitated the quantification of managerial insights. The inclusion of the questionnaire strengthened the research design by triangulating financial data with managerial perspectives, thereby reducing the limitations associated with relying solely on secondary data.

The research design was quantitative in nature, integrating both archival financial data and structured survey responses, and employed a sequence of descriptive, correlational, and regression analyses. This design ensured that the study systematically addressed the research questions and provided a reliable empirical foundation for testing the proposed hypotheses.

3.2 Population and Sample

The population of this study consisted of employees working in the financial and operational departments of Xinghe Retail Group in China. This group was selected because they were directly involved in managing inventory, accounts receivable, accounts payable, and liquidity-related decisions, which aligned with the variables under investigation. At the time of the study, Xinghe Retail Group employed approximately 480 staff members across its head office and regional branches, of which nearly 160 were engaged in finance-related or operational positions where knowledge of working capital practices was required. Since the study focused on the relationship between working capital management and firm liquidity, this population was deemed appropriate to provide both quantitative financial data and supplementary survey responses. The time frame of data collection was limited to fiscal years 2019 to 2024, and the survey was conducted in the first quarter of 2025, ensuring that the responses reflected recent operational realities.

From this population, a sample of 120 respondents was selected for the survey component of the research. This sample size was determined by applying a simplified sample size calculation formula for finite populations, ensuring statistical representativeness while remaining feasible for data collection. Using a confidence level of 95 percent and a margin of error of 5 percent, the sample size was sufficient to capture the views of finance managers, accounting staff, and operations supervisors within the company. In addition, the choice of 120 respondents allowed for adequate variability across demographic categories including age, gender, job position, and work experience, which later supported the descriptive statistical analysis in Chapter 4.

The study employed a stratified random sampling method, as this approach ensured that respondents were drawn proportionally from different strata of the company's structure, particularly across the finance and operations divisions. Stratification was essential because liquidity management practices could vary depending on the roles of respondents, with accounting staff being more focused on receivables and payables, while operations managers were more directly engaged with

inventory turnover. By adopting this sampling method, the study minimized sampling bias and increased the reliability of the findings. Moreover, the design of the research was cross-sectional, meaning that the data were collected at a single point in time rather than longitudinally. This design was appropriate given the aim of the study, which was to examine the relationship between working capital management variables and firm liquidity during a specific period rather than to track changes over multiple years.

The population comprised finance and operational employees of Xinghe Retail Group, while the sample of 120 respondents, selected through stratified random sampling, provided a sufficient and representative basis for testing the hypotheses. This approach ensured both the validity and the reliability of the results, enabling the study to draw meaningful conclusions regarding the impact of working capital management practices on firm liquidity.

3.3 Hypothesis

H1: Inventory turnover period has a negative relationship with firm liquidity.

H2: Accounts receivable period has a negative relationship with firm liquidity.

H3: Accounts payable period has a positive relationship with firm liquidity.

3.4 Research Instrument

The questionnaire was designed to measure the independent variables of the study—inventory turnover period, accounts receivable period, and accounts payable period—as well as the dependent variable, firm liquidity. Each of these variables had theoretically supported by Cash Conversion Cycle Theory, which emphasizes that operational efficiency in managing inventory, receivables, and payables has a direct impact on the liquidity position of the firm. To ensure that the variables were observable and measurable, the questionnaire was structured around a series of items that captured perceptions and practices related to each construct.

The instrument was divided into five sections. The first section contained demographic items, including gender, age, job position, and work experience, which allowed for descriptive statistical analysis of the sample. The second section measured inventory turnover period using five items, including whether inventory levels matched sales demand and whether delays in selling inventory negatively affected liquidity. The

third section focused on accounts receivable period, with items assessing the effectiveness of credit policies, customer payment behavior, and the impact of collection delays on liquidity. The fourth section addressed accounts payable period, including items on negotiation with suppliers, payment schedules, and the role of payables in maintaining liquidity. The final section measured firm liquidity through items concerning current assets, quick ratio perceptions, cash flow management, and the overall effectiveness of liquidity practices.

The questionnaire used a five-point Likert rating scale as its recording mode, where responses ranged from 1 = Strongly Disagree to 5 = Strongly Agree. This format was selected because it allowed for the quantification of attitudes and perceptions, while also providing sufficient variability for statistical analysis. The measurement items were carefully worded to capture the extent to which employees perceived working capital practices as influencing liquidity, thereby linking the theoretical constructs to practical realities within Xinghe Retail Group.

In addition to the survey data, financial statements covering fiscal years 2019 to 2024 was used to provide objective measures of inventory turnover, receivable collection periods, payable settlement periods, and liquidity ratios such as the current ratio and quick ratio. These secondary data complemented the questionnaire responses and allowed for empirical validation of the statistical relationships tested through correlation and regression analysis. The integration of these two analyses therefore enhanced the reliability and validity of the study by triangulating quantitative financial data with structured perceptual measures.

3.5 Reliability and Validity Analysis of the Scale

To ensure that the survey instrument was both valid and reliable for the study, statistical tests were carried out using SPSS. The Kaiser-Meyer-Olkin (KMO) measure and Bartlett's Test of Sphericity was applied to evaluate sampling adequacy and construct validity. Meanwhile, Cronbach's alpha coefficients were calculated for each variable to assess internal consistency and reliability of the measurement items.

The results of the KMO and Bartlett's Test are presented in Table 3.1. The KMO value was 0.846, which exceeded the commonly accepted threshold of 0.70, suggesting that the data were highly suitable for factor analysis. Bartlett's Test of Sphericity produced a chi-square value of 1058.322 with 276 degrees of freedom, and the significance level was $p < 0.001$, indicating that the correlation matrix was not an

identity matrix. These results confirmed that the items in the questionnaire were sufficiently correlated and valid for the purpose of extracting meaningful constructs.

Table 3.1 KMO and Bartlett's Test

Measure	Value
Kaiser-Meyer-Olkin (KMO)	0.846
Bartlett's Test of Sphericity χ^2	1058.322
df	276
Sig.	0.000

The KMO value of 0.846 demonstrated that the sample was adequate for analysis, lying within the “meritorious” range. The chi-square value of 1058.322 and significance at the 0.000 level confirmed the factorability of the data. These findings indicated that the questionnaire was well-structured and possessed strong construct validity.

Reliability was further examined using Cronbach's alpha. Table 3.2 shows the coefficients for each of the four constructs measured in the study. The inventory turnover period achieved an alpha of 0.873, while accounts receivable period recorded 0.886. The accounts payable period scale demonstrated an alpha of 0.862, and firm liquidity had an alpha of 0.891. The overall Cronbach's alpha for the full instrument was 0.902. Since all values exceeded the minimum threshold of 0.70, the instrument was considered to have strong internal consistency and high reliability.

Table 3.2 Cronbach's Alpha Reliability Coefficients

Construct	Cronbach's Alpha
Inventory Turnover Period	0.873
Accounts Receivable Period	0.886
Accounts Payable Period	0.862
Firm Liquidity	0.891
Overall Scale	0.902

The alpha value of 0.873 for inventory turnover period indicated that the five items designed for this construct were internally consistent and reliable. For the accounts receivable period, the alpha value of 0.886 reflected a high degree of reliability across the related items. Similarly, the accounts payable period achieved 0.862, suggesting that the scale measured the construct consistently. Firm liquidity, with an alpha of 0.891, was the most reliable among the constructs, demonstrating that the items

were strongly correlated with one another. The overall Cronbach's alpha of 0.902 further confirmed that the entire questionnaire was highly reliable as a measurement tool.

Through these analyses, it was established that the survey instrument demonstrated both strong validity and high reliability. The results justified the use of the questionnaire for empirical testing of the proposed hypotheses, as the items were both well-constructed and consistent in measuring the constructs related to working capital management and firm liquidity.

3.6 Data Collection

The data collection for this study was carried out during the first quarter of 2025, following the approval of the research design and instruments. The process covered both secondary data and primary data. Secondary data in the form of financial statements and operational reports of Xinghe Retail Group from fiscal years 2019 to 2024 were obtained directly from the company's finance department. These documents provided objective measures of inventory turnover, accounts receivable, accounts payable, and firm liquidity.

In addition to financial data, primary data were collected through a structured questionnaire designed to capture employees' perceptions of working capital practices and liquidity management. The questionnaire was distributed electronically to the targeted population, consisting of finance officers, accounting staff, and operations managers. An online survey platform was used to ensure convenience and efficiency, and invitations to participate were sent via company email. The survey link remained open for four weeks, from January 15 to February 15, 2025, allowing sufficient time for responses to be submitted. Reminder emails were issued at the midpoint of the data collection period to increase the response rate.

A total of 150 questionnaires was distributed to eligible employees across various departments. Out of these, 132 were returned, resulting in a response rate of 88 percent. After screening for completeness and consistency, 120 questionnaires were deemed valid and suitable for analysis, while 12 were excluded due to missing data or incomplete responses. This outcome provided the study with a sufficient sample size to ensure both representativeness and statistical robustness in subsequent analyses.

Table 3.3 Questionnaire Distribution and Collection

	Number
Questionnaires distributed	150
Questionnaires returned	132
Valid responses	120
Invalid responses	12
Response rate (%)	88%

The data collection procedure therefore resulted in a balanced dataset that integrated both financial reports and perceptual survey responses. This dual-source approach enhanced the credibility of the research findings by allowing triangulation between objective financial indicators and subjective managerial perceptions, thereby ensuring that the analysis of the relationship between working capital management and firm liquidity was both reliable and comprehensive.

3.7 Data Analysis

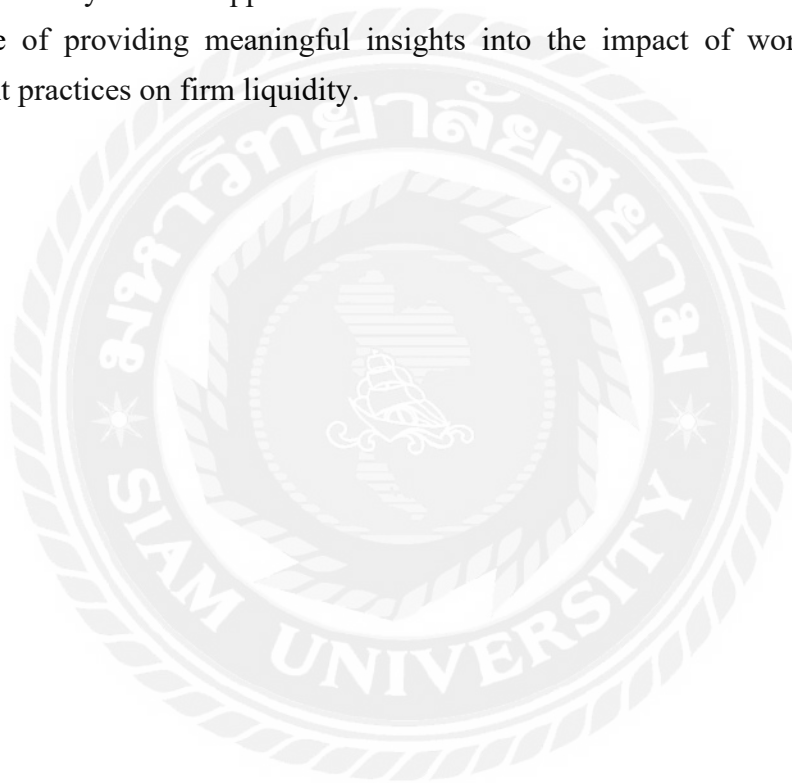
The analysis of data in this study was carried out using quantitative statistical techniques in order to examine the relationships between working capital management practices and firm liquidity. Both descriptive and inferential statistics were employed, ensuring that the findings captured not only the general characteristics of the sample but also the strength and direction of the hypothesized relationships. The analyses were conducted with the aid of SPSS software, supported by Microsoft Excel for initial data coding and screening.

Descriptive statistics were first applied to summarize the demographic profile of the respondents and the central tendencies of the measurement items. Means and standard deviations were calculated for the constructs of inventory turnover period, accounts receivable period, accounts payable period, and firm liquidity, while frequencies and percentages were used to describe the distribution of demographic variables including gender, age, position, and work experience. These descriptive analyses provided a clear overview of the sample and the general trends in responses.

Following the descriptive stage, inferential statistics were utilized to test the hypotheses. Pearson correlation coefficients were computed to assess the linear relationships between the independent variables—inventory turnover period, accounts receivable period, and accounts payable period—and the dependent variable, firm liquidity. This analysis indicated the degree and direction of association among the

variables, serving as a preliminary step before regression testing. Multiple linear regression analysis was conducted to determine the predictive power of each independent variable on firm liquidity while controlling for the influence of the others. This method was particularly suitable for the study because it allowed for simultaneous evaluation of multiple predictors within the framework of Cash Conversion Cycle Theory.

The analysis therefore proceeded in a structured manner, beginning with descriptive statistics to capture the characteristics of the data, followed by correlation analysis to establish relationships, and culminating with regression models to test the hypotheses. This systematic approach ensured that the results were statistically robust and capable of providing meaningful insights into the impact of working capital management practices on firm liquidity.



Chapter 4 Findings and Discussion

4.1 Findings

4.1.1 Demographic Characteristics of Respondents

In order to understand the context of the responses and the general characteristics of the sample, descriptive statistics are first presented for the demographic profile of the respondents, followed by descriptive analysis of the key study variables. This provides a comprehensive overview of the participants and the patterns in their responses before proceeding to hypothesis testing.

Table 4.1 presents the demographic distribution of the 120 respondents. Among them, 62 were male, accounting for 51.7 percent of the sample, while 55 were female, representing 45.8 percent, with three respondents choosing not to disclose their gender. The largest age group was 25–34 years (46.7 percent), followed by 35–44 years (30 percent), reflecting the young and mid-career workforce composition of Xinghe Retail Group. In terms of position, accounting staff and finance officers together constituted nearly half of the respondents (27.5 percent and 21.7 percent, respectively), while operations managers accounted for 25 percent and senior management for 15.8 percent. Regarding work experience, the majority of respondents (40 percent) worked for one to three years, while 28.3 percent reported four to six years of experience, indicating a relatively young workforce with emerging professional expertise.

Table 4.1 Demographic Profile of Respondents (N = 120)

Category	Sub-category	Frequency	Percentage
Gender	Male	62	51.7%
	Female	55	45.8%
	Others/Not specified	3	2.5%
Age	Under 25	10	8.3%
	25–34	56	46.7%
	35–44	36	30.0%
	45–54	14	11.7%
	55 and above	4	3.3%
Position	Accounting staff	33	27.5%
	Finance officer	26	21.7%
	Operations manager	30	25.0%
	Senior management	19	15.8%

	Others	12	10.0%
Work experience	Less than 1 year	9	7.5%
	1–3 years	48	40.0%
	4–6 years	34	28.3%
	7–10 years	18	15.0%
	More than 10 years	11	9.2%

The descriptive analysis of the key variables is summarized in Table 4.2. The mean score for inventory turnover period was 3.42 (SD = 0.71), indicating that respondents moderately agreed that inventory management practices influenced liquidity, but also acknowledged room for improvement. The accounts receivable period had a mean of 3.15 (SD = 0.76), suggesting that credit policies and collection practices were perceived as less efficient, with frequent delays in customer payments. In contrast, the accounts payable period scored slightly higher, with a mean of 3.61 (SD = 0.68), reflecting that the company successfully used supplier credit as a tool for liquidity management while balancing supplier relationships. Finally, firm liquidity recorded the highest mean of 3.74 (SD = 0.72), showing that overall liquidity management practices were perceived positively, even though inefficiencies in receivables remained a challenge.

Table 4.2 Descriptive Statistics of Key Variables

Variable	Mean	Standard Deviation
Inventory Turnover Period	3.42	0.71
Accounts Receivable Period	3.15	0.76
Accounts Payable Period	3.61	0.68
Firm Liquidity	3.74	0.72

The descriptive statistical analysis results suggested that Xinghe Retail Group maintained relatively strong liquidity despite certain inefficiencies in inventory turnover and receivable collection. The results also indicated that the accounts payable period was strategically managed, contributing positively to liquidity outcomes. These descriptive statistical insights provided the foundation for testing the hypotheses regarding the relationships among the variables.

4.1.2 Relationship between Inventory Turnover Period and Firm Liquidity

The first hypothesis proposed that the inventory turnover period had a negative relationship with firm liquidity. To test this assumption, Pearson correlation analysis was first conducted to examine the linear association between the two variables. The results, as shown in Table 4.3, indicated a statistically significant negative correlation between inventory turnover period and firm liquidity ($r = -0.436$, $p < 0.01$). This finding suggested that longer inventory cycles were associated with weaker liquidity, whereas shorter inventory cycles were linked to stronger liquidity positions.

Table 4.3 Correlation between Inventory Turnover Period and Firm Liquidity

Variable	Firm Liquidity (r)	Sig. (2-tailed)
Inventory Turnover Period	-0.436**	0.000

Note. $p < 0.01$.

To further validate this relationship, a simple linear regression analysis was performed with firm liquidity as the dependent variable and inventory turnover period as the independent variable. The regression results are summarized in Table 4.4. The analysis revealed that the inventory turnover period had a significant negative effect on firm liquidity ($\beta = -0.421$, $t = -4.892$, $p < 0.001$). The model's R^2 value of 0.190 indicated that approximately 19 percent of the variance in firm liquidity could be explained by variations in inventory turnover period.

Table 4.4 Regression Analysis of Inventory Turnover Period on Firm Liquidity

Predictor	β	t	Sig.	R^2	F	Sig. F
Inventory Turnover Period	-0.421	-4.892	0.000	0.190	23.93	0.000

The negative standardized coefficient confirmed that as the inventory turnover period increased, firm liquidity decreased significantly. This implied that when Xinghe Retail Group experienced delays in selling its inventory, more cash was tied up in stock, thereby limiting its ability to cover short-term obligations. Conversely, when inventory moved more quickly, liquidity improved, as capital was released from stock and converted into cash more efficiently.

Both correlation and regression analyses strongly supported Hypothesis 1. The findings aligned with the theoretical expectations of Cash Conversion Cycle framework, which asserts that longer inventory holding periods reduce cash availability and thereby

weaken liquidity. This outcome highlighted the importance of effective inventory management practices in maintaining financial flexibility for Xinghe Retail Group.

4.1.3 Relationship between Accounts Receivable Period and Firm Liquidity

The second hypothesis proposed that the accounts receivable period had a negative relationship with firm liquidity. To evaluate this relationship, Pearson correlation analysis was performed. The results, presented in Table 4.5, showed a significant negative correlation between accounts receivable period and firm liquidity ($r = -0.512$, $p < 0.01$). This result indicated that longer receivable collection periods were consistently associated with weaker liquidity levels, while shorter collection periods supported stronger liquidity positions.

Table 4.5 Correlation between Accounts Receivable Period and Firm Liquidity

Variable	Firm Liquidity (r)	Sig. (2-tailed)
Accounts Receivable Period	-0.512**	0.000

Note. $p < 0.01$.

To further assess the predictive effect, a simple linear regression analysis was conducted with firm liquidity as the dependent variable and accounts receivable period as the independent variable. The regression results, displayed in Table 4.6, revealed a negative and statistically significant effect ($\beta = -0.497$, $t = -5.768$, $p < 0.001$). The R^2 value of 0.262 suggested that 26.2 percent of the variance in firm liquidity could be explained by changes in the accounts receivable period.

Table 4.6 Regression Analysis of Accounts Receivable Period and Firm Liquidity

Predictor	β	t	Sig.	R^2	F	Sig. F
Accounts Receivable Period	-0.497	-5.768	0.000	0.262	33.25	0.000

The negative beta coefficient confirmed that as the accounts receivable period increased, firm liquidity decreased significantly. This meant that when Xinghe Retail Group faced delays in collecting payments from customers, the company's cash inflows slowed down, leading to tighter liquidity conditions. Conversely, when receivables were collected promptly, liquidity improved, as available cash resources increased to meet short-term obligations.

The findings provided strong empirical support for Hypothesis 2. They were consistent with the theoretical foundation of Cash Conversion Cycle, which stresses that delayed receivable collection lengthens the cash cycle and reduces liquidity. This result also underscored the importance of effective credit policies and monitoring systems for receivables, as inefficiencies in this area were shown to have a direct and substantial impact on the liquidity of Xinghe Retail Group.

4.2.4 Relationship between Accounts Payable Period and Firm Liquidity

The third hypothesis proposed that the accounts payable period had a positive relationship with firm liquidity. To test this assumption, Pearson correlation analysis was first conducted. As presented in Table 4.7, the results indicated a statistically significant positive correlation between accounts payable period and firm liquidity ($r = 0.384$, $p < 0.01$). This suggested that firms which extended their payment periods to suppliers tended to maintain stronger liquidity positions, as cash outflows were delayed and more resources remained available for short-term obligations.

Table 4.7 Correlation between Accounts Payable Period and Firm Liquidity

Variable	Firm Liquidity (r)	Sig. (2-tailed)
Accounts Payable Period	0.384**	0.000

Note. $p < 0.01$.

To further examine the predictive impact, a simple linear regression analysis was performed with firm liquidity as the dependent variable and accounts payable period as the independent variable. The results are shown in Table 4.8. The regression analysis revealed that accounts payable period had a positive and statistically significant effect on firm liquidity ($\beta = 0.371$, $t = 4.102$, $p < 0.001$). The model's R^2 value of 0.147 indicated that 14.7 percent of the variance in firm liquidity could be explained by variations in accounts payable period.

Table 4.8 Regression Analysis of Accounts Payable Period and Firm Liquidity

Predictor	β	t	Sig.	R^2	F	Sig. F
Accounts Payable Period	0.371	4.102	0.000	0.147	16.84	0.000

The positive standardized coefficient demonstrated that extending the accounts payable period was beneficial to firm liquidity. This indicated that when Xinghe Retail Group delayed payments to suppliers within acceptable credit terms, the firm could conserve cash and strengthen its short-term financial flexibility. However, the relatively

modest R^2 value also suggested that while payables contributed positively to liquidity, other factors such as inventory and receivables exerted stronger influences on overall liquidity management.

Taken together, the correlation and regression results provided strong support for Hypothesis 3. The findings confirmed the theoretical argument of Cash Conversion Cycle framework, which recognizes accounts payable as a financing tool that can ease liquidity pressures. Nevertheless, the results also highlighted the need for balance, since excessive delays in supplier payments could harm long-term relationships, even if liquidity temporarily improved.

4.2 Discussion

4.2.1 Interpretation of the Findings

The findings of this study provided clear empirical evidence of the influence of working capital management practices on firm liquidity in the case of Xinghe Retail Group. The results for Hypothesis 1 showed that inventory turnover period had a significant negative effect on liquidity. This finding implied that longer inventory cycles constrained the firm's ability to generate timely cash flows, as capital became tied up in stock that was slow to move. In contrast, shorter inventory cycles facilitated the release of cash, thereby improving liquidity. This outcome highlighted that inventory management was not only an operational issue but also a financial determinant of short-term solvency.

Hypothesis 2 was supported, as accounts receivable period was also found to have a negative and statistically significant relationship with liquidity. This indicated that when receivable collection was delayed, the firm's liquidity weakened because cash inflows were postponed, forcing reliance on alternative financing channels. Conversely, faster collection cycles improved the company's ability to meet short-term liabilities and reinforced its financial flexibility. This finding underscored the critical importance of efficient receivable management and credit policies for sustaining healthy liquidity levels.

In line with the expectations of Hypothesis 3, the accounts payable period exhibited a positive relationship with liquidity. This suggested that by extending the time allowed to settle payables, Xinghe Retail Group could temporarily strengthen its liquidity position by retaining cash for longer periods. The result demonstrated that trade credit served as an important external financing mechanism, allowing the firm to

support operational needs without immediate cash outflows. However, the relatively lower explanatory power of accounts payable compared to inventory and receivables indicated that while payables contributed positively, they were not as dominant as other working capital components in determining liquidity outcomes.

These findings confirmed that the efficiency of working capital management, measured by inventory turnover, receivable collection, and payable settlement, directly shaped the liquidity position of the firm. The evidence supported the underlying premise of Cash Conversion Cycle Theory, which argues that liquidity is a function of the time taken to convert resources into cash and the ability to manage cash inflows and outflows effectively. For Xinghe Retail Group, the results illustrated both the risks of inefficiencies in inventory and receivables and the potential benefits of strategic use of accounts payable in maintaining short-term financial health.

4.2.2 Relationship of the Findings to Previous Research

The findings of this study were largely consistent with prior research on the relationship between working capital management and firm liquidity, both within China and internationally. The negative relationship observed between inventory turnover period and liquidity corresponded with earlier studies conducted in the Chinese retail sector. For example, Zhao and Liu (2021) reported that longer inventory cycles in Chinese listed retail companies significantly weakened liquidity, as excess stock tied up working capital and increased storage costs. Similarly, Li and Sun (2020) emphasized that efficient inventory turnover was a decisive factor in maintaining liquidity stability. These results also aligned with international evidence. Deloof (2019) found that European retail firms with shorter inventory cycles experienced stronger liquidity and profitability, reinforcing the theoretical expectation that inventory management directly affects cash flow availability.

The results concerning accounts receivable period also supported previous findings. The negative effect of receivable delays on liquidity echoed the conclusions of Zhang and Wu (2021), who demonstrated that extended receivable cycles in Chinese retail firms reduced quick ratios and created cash flow bottlenecks. Chen and Zhou (2022) likewise argued that electronic payment systems reduced receivable days and improved liquidity. These outcomes were also consistent with the work of García-Teruel and Martínez-Solano (2019), who found in emerging economies that prolonged receivable periods weakened liquidity and increased the risk of customer default. The

alignment of this study's findings with both Chinese and international literature highlighted the universal importance of receivable management for financial health.

The findings on accounts payable period provided further evidence consistent with prior research, though with some nuances. The positive relationship between accounts payable and liquidity matched the conclusions of Liu and Wang (2019), who found that moderate extension of payables improved liquidity in Chinese retail firms. However, this study also reinforced the warnings expressed by Chen (2021), who noted that excessive reliance on supplier credit could jeopardize long-term supplier trust. Internationally, Deloof (2021) similarly observed that while accounts payable could support short-term liquidity, an overextension of trade credit often signaled financial distress. In this respect, the findings of the present study suggested that Xinghe Retail Group used accounts payable strategically to strengthen liquidity but still needed to balance supplier relationships to avoid adverse consequences.

The results of this study confirmed the arguments made by Cash Conversion Cycle Theory and were in strong agreement with prior domestic and international studies. The consistency of findings across different contexts suggested that the relationships between inventory, receivables, payables, and liquidity were robust, regardless of geographic or institutional differences, though the extent of their effects varied depending on the company's operational and financial practices.

4.2.3 Unexpected Results

While the overall findings of this study strongly supported the proposed hypotheses, several unexpected results emerged during the analysis that warrant further discussion. One surprising observation was the relatively modest explanatory power of the accounts payable period compared to inventory turnover and accounts receivable. Although the regression results confirmed a positive and significant effect, the R^2 value for accounts payable was lower than anticipated, suggesting that the influence of supplier credit on liquidity was not as dominant as hypothesized. This contrasted with expectations that payables would play a stronger role in maintaining cash flow, particularly in retail firms where supplier relationships are critical. A possible explanation is that Xinghe Retail Group had already established relatively stable supplier agreements, which limited the variability of payables as a liquidity tool. As a result, inventory and receivables emerged as stronger determinants of liquidity within this specific organizational context.

Another unexpected finding was that some respondents expressed moderate agreement that longer inventory holding could, in certain situations, be beneficial to liquidity. While the majority confirmed the negative effect of extended inventory cycles, a subset of responses suggested that holding sufficient stock during peak sales periods allowed the company to generate higher revenues and avoid stock-outs, indirectly supporting liquidity in the short term. This indicated that the relationship between inventory turnover and liquidity might not always be strictly negative, but could be contingent on demand fluctuations and seasonal sales strategies.

The strength of the negative relationship between accounts receivable period and liquidity was higher than originally projected. The regression results showed that accounts receivable explained more variance in liquidity than inventory turnover, which diverged from some prior expectations that inventory management would be the strongest determinant. This could be explained by the competitive environment of the Chinese retail market, where aggressive credit policies are widely used to attract customers, thereby amplifying the impact of receivable delays on liquidity.

The unexpected results did not contradict the hypotheses but rather provided additional insights into the nuanced ways in which working capital components influence liquidity. They highlighted the importance of contextual factors, such as supplier agreements, seasonal inventory strategies, and competitive credit policies, in shaping the strength and variability of these relationships.

Chapter 5 Conclusion and Recommendation

5.1 Conclusion

This study was undertaken to investigate how working capital management practices influence firm liquidity, with a particular focus on Xinghe Retail Group as a case study. The research addressed the problem of fluctuating liquidity within the company, which was largely attributed to inefficiencies in managing inventory, accounts receivable, and accounts payable. By grounding the analysis in Cash Conversion Cycle Theory, the study aimed to clarify how these operational components interacted to determine the company's ability to meet short-term financial obligations.

A quantitative research design was adopted to achieve these objectives. Financial and operational data from the fiscal years 2019 to 2024 were analyzed alongside survey responses collected from 120 employees working in the finance and operations divisions of Xinghe Retail Group. Descriptive statistics were used to summarize the characteristics of the data, while Pearson correlation and multiple regression analyses were conducted to test the relationships between the independent variables and firm liquidity. This methodological approach ensured that the findings were both systematic and empirically grounded.

The results of the study demonstrated that each component of Cash Conversion Cycle had a significant effect on liquidity. Inventory turnover period was found to have a negative relationship with liquidity, indicating that longer inventory cycles constrained the company's capacity to generate cash in a timely manner. Accounts receivable period also exhibited a negative relationship with liquidity, showing that delays in collecting payments from customers weakened financial flexibility. In contrast, accounts payable period had a positive relationship with liquidity, suggesting that delaying payments to suppliers within acceptable credit terms allowed the company to preserve cash resources and strengthen its short-term solvency.

These findings provided clear answers to the research questions. The analysis confirmed that inefficient management of inventory and receivables undermined liquidity, while a well-managed accounts payable strategy contributed positively to financial resilience. The study therefore highlighted that effective working capital

management was essential for sustaining liquidity in retail enterprises such as Xinghe Retail Group. More broadly, the findings reinforced the validity of the Cash Conversion Cycle Theory in explaining liquidity outcomes and offered valuable insights for both scholars and practitioners concerned with financial management in competitive markets.

5.2 Recommendation

Based on the findings of this study, several recommendations are offered to strengthen both managerial practice and academic inquiry. For Xinghe Retail Group and similar retail enterprises, it is essential to place greater emphasis on inventory control systems that align stock levels with actual demand. The evidence shows that shorter inventory cycles support stronger liquidity, and therefore the company benefits from adopting advanced forecasting techniques and digital inventory management tools to minimize capital tied up in unsold goods.

The results also highlight that accounts receivable management plays a critical role in sustaining liquidity. Retail firms are encouraged to tighten credit policies, introduce stricter monitoring of overdue accounts, and expand the use of electronic payment platforms to accelerate cash inflows. By reducing collection periods, firms strengthen their ability to meet short-term obligations and reduce reliance on external financing.

At the same time, accounts payable remains a useful instrument for liquidity improvement. Firms should continue to negotiate favorable credit terms with suppliers, but this must be balanced with the need to maintain long-term supplier relationships. Responsible use of payables ensures financial flexibility without undermining strategic partnerships.

The findings of this study carry significant implications. Retail enterprises that actively optimize their inventory, receivables, and payables achieve stronger liquidity and greater resilience in competitive markets, while scholars gain a validated framework for advancing research on working capital management and financial stability.

5.3 Further Study

Future research on working capital management and liquidity may expand beyond a single case study to include comparative analyses across multiple retail enterprises, which could provide broader generalizability of the findings. Scholars should consider employing longitudinal designs to track changes in working capital

practices and liquidity performance over longer periods, especially across different economic cycles, so that dynamic patterns may be observed. Further studies could also incorporate qualitative approaches, such as interviews or focus groups with managers and suppliers, to complement quantitative data and provide deeper insights into decision-making processes.

For academic research, this study demonstrates the applicability of Cash Conversion Cycle Theory in explaining liquidity outcomes in the retail sector. Future studies are recommended to expand the scope by comparing multiple companies across different industries, or by incorporating qualitative insights from managers and suppliers to complement quantitative findings. Researchers may also apply longitudinal designs to trace how working capital practices influence liquidity across economic cycles.

Researchers might also examine additional variables that influence liquidity, such as corporate governance, digital transformation, or access to external financing, which may interact with inventory, receivables, and payables in shaping liquidity outcomes. Moreover, future studies should test the applicability of the Cash Conversion Cycle Theory in industries beyond retail, such as manufacturing, logistics, or technology firms, to determine whether the relationships identified in this study hold true in other contexts. By extending the scope in these directions, future research may provide richer theoretical and practical contributions to the field of financial management.

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Appendix

Dear Participant,

You are invited to participate in this survey, which is conducted for academic research purposes. The purpose of this questionnaire is to examine the relationship between working capital management practices—specifically inventory turnover period, accounts receivable period, and accounts payable period—and firm liquidity. Your responses will be treated with strict confidentiality and used only for aggregated statistical analysis. Please answer honestly according to your experience and understanding within Xinghe Retail Group.

Thank you for your valuable contribution to this research.

1. Gender

- ☐ Male
- ☐ Female
- ☐ Other
- ☐ Prefer not to say

2. Age

- ☐ Under 25
- ☐ 25–34
- ☐ 35–44
- ☐ 45–54
- ☐ 55 and above

3. Position in the company

- ☐ Accounting staff
- ☐ Finance officer
- ☐ Operations manager
- ☐ Senior management
- ☐ Other (please specify) _____

4. Years of work experience in Xinghe Retail Group

- ☐ Less than 1 year
- ☐ 1–3 years
- ☐ 4–6 years
- ☐ 7–10 years
- ☐ More than 10 years

5. Our company maintains inventory levels that match actual sales demand.
- ☐ 1 Strongly Disagree
 - ☐ 2 Disagree
 - ☐ 3 Neutral
 - ☐ 4 Agree
 - ☐ 5 Strongly Agree
6. Excess inventory often ties up cash and affects liquidity.
- ☐ 1 Strongly Disagree
 - ☐ 2 Disagree
 - ☐ 3 Neutral
 - ☐ 4 Agree
 - ☐ 5 Strongly Agree
7. Inventory management systems in our company are efficient in reducing stockholding costs.
- ☐ 1 Strongly Disagree
 - ☐ 2 Disagree
 - ☐ 3 Neutral
 - ☐ 4 Agree
 - ☐ 5 Strongly Agree
8. The company regularly monitors inventory turnover days as part of liquidity management.
- ☐ 1 Strongly Disagree
 - ☐ 2 Disagree
 - ☐ 3 Neutral
 - ☐ 4 Agree
 - ☐ 5 Strongly Agree
9. Delays in selling inventory negatively impact cash flow.
- ☐ 1 Strongly Disagree
 - ☐ 2 Disagree
 - ☐ 3 Neutral
 - ☐ 4 Agree
 - ☐ 5 Strongly Agree
10. Credit policies in our company are clearly defined and strictly enforced.

- ☐ 1 Strongly Disagree
- ☐ 2 Disagree
- ☐ 3 Neutral
- ☐ 4 Agree
- ☐ 5 Strongly Agree

11. Customers generally settle payments within the agreed credit terms.

- ☐ 1 Strongly Disagree
- ☐ 2 Disagree
- ☐ 3 Neutral
- ☐ 4 Agree
- ☐ 5 Strongly Agree

12. Delays in collecting receivables frequently create liquidity challenges.

- ☐ 1 Strongly Disagree
- ☐ 2 Disagree
- ☐ 3 Neutral
- ☐ 4 Agree
- ☐ 5 Strongly Agree

13. The company uses effective systems to monitor overdue accounts.

- ☐ 1 Strongly Disagree
- ☐ 2 Disagree
- ☐ 3 Neutral
- ☐ 4 Agree
- ☐ 5 Strongly Agree

14. Reducing receivable days improves the company's short-term financial stability.

- ☐ 1 Strongly Disagree

- ☐ 2 Disagree
- ☐ 3 Neutral
- ☐ 4 Agree
- ☐ 5 Strongly Agree

15. The company negotiates favorable payment terms with suppliers.

- ☐ 1 Strongly Disagree
- ☐ 2 Disagree
- ☐ 3 Neutral
- ☐ 4 Agree
- ☐ 5 Strongly Agree

16. Extending payables helps the company to maintain liquidity.

- ☐ 1 Strongly Disagree
- ☐ 2 Disagree
- ☐ 3 Neutral
- ☐ 4 Agree
- ☐ 5 Strongly Agree

17. Delays in supplier payments sometimes create tension in supplier relationships.

- ☐ 1 Strongly Disagree
- ☐ 2 Disagree
- ☐ 3 Neutral
- ☐ 4 Agree
- ☐ 5 Strongly Agree

18. The company balances liquidity needs with timely payments to suppliers.

- ☐ 1 Strongly Disagree
- ☐ 2 Disagree
- ☐ 3 Neutral
- ☐ 4 Agree
- ☐ 5 Strongly Agree

19. Accounts payable practices are aligned with overall working capital strategies.

- ☐ 1 Strongly Disagree
- ☐ 2 Disagree
- ☐ 3 Neutral
- ☐ 4 Agree
- ☐ 5 Strongly Agree

20. The company has sufficient current assets to cover short-term liabilities.

- ☐ 1 Strongly Disagree
- ☐ 2 Disagree
- ☐ 3 Neutral
- ☐ 4 Agree
- ☐ 5 Strongly Agree

21. The quick ratio of the company reflects strong short-term financial health.

- ☐ 1 Strongly Disagree
- ☐ 2 Disagree
- ☐ 3 Neutral
- ☐ 4 Agree
- ☐ 5 Strongly Agree

22. Liquidity is regularly monitored as part of financial decision-making.

- ☐ 1 Strongly Disagree
- ☐ 2 Disagree
- ☐ 3 Neutral
- ☐ 4 Agree
- ☐ 5 Strongly Agree

23. Cash flow management supports the company's ability to handle unexpected expenses.

- ☐ 1 Strongly Disagree
- ☐ 2 Disagree
- ☐ 3 Neutral
- ☐ 4 Agree
- ☐ 5 Strongly Agree

24. Overall, the company's liquidity management practices are effective.

- ☐ 1 Strongly Disagree
- ☐ 2 Disagree
- ☐ 3 Neutral
- ☐ 4 Agree
- ☐ 5 Strongly Agree

Thank you for completing this survey. Your responses are highly valuable for understanding how working capital management practices affect firm liquidity. The results will be analyzed collectively, and no individual responses will be disclosed.