

The Relationship between Cash Conversion Cycle on Firm Profitability; With the Moderating Effect of COVID-19: A Study of Listed Manufacturing Companies in Sri Lanka

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Abstract

In the dynamic and competitive business landscape, firms constantly strive to optimize their financial performance. The cash conversion cycle, a crucial metric of working capital efficiency, plays a pivotal role in influencing a firm's profitability. This study delves into the intricate relationship between the cash conversion cycle and firm profitability, particularly during the unprecedented challenges posed by the COVID-19 pandemic. Utilizing a comprehensive sample of 30 manufacturing companies listed on the Colombo Stock Exchange in Sri Lanka from 2017 to 2022, this research utilizes regression analysis to examine the impact of the cash conversion cycle on panel profitability. The study explores the complex interaction between the cash conversion cycle and firms' profitability, emphasizing the moderating influence of the COVID-19 pandemic. The research reveals that the pandemic exacerbates the negative impact of the cash conversion cycle on profitability, especially on return on assets. Effective liquidity management is crucial during economic uncertainty, as businesses with a shorter cash conversion cycle exhibit higher profitability. Overall, The investigation emphasizes the need for adaptive liquidity practices to sustain and improve firm profitability, especially during challenges like the COVID-19 pandemic. Research indicates that the pandemic has intensified the negative effect of the cash conversion cycle on profitability, highlighting the crucial role of liquidity management in times of economic uncertainty. This study makes a novel contribution to the literature by examining the moderating impact of COVID-19 on the relationship between the cash conversion cycle and firm profitability. Further, these findings enrich the financial management literature and offer practical advice to businesses navigating the present economic situation, particularly during the COVID-19 pandemic. The study suggests that prudent liquidity management can help maintain and increase firm profitability in uncertain times. This advice is particularly relevant as businesses face unprecedented challenges due to the pandemic.

Keywords: Cash Conversion Cycle, COVID-19, Financial Performance, Manufacturing Firms, Working Capital Management.