Moderating Effect of Exchange Rate on the Relationship Between Working Capital Management and Firms' Performance: Evidence from Consumer Services Companies Listed in CSE

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Abstract

The primary objective of this study is to investigate the moderating effect of the exchange rate on the relationship between working capital management and a firm's performance. The data were collected from 22 companies listed under Consumer Services on Colombo Stock Exchange for 2013 to 2022 to pursue this research. The companies were selected using the simple random sampling method. The data analysis was performed using the software EViews 12, and statistical techniques such as descriptive statistics, correlation analysis, and regression analysis were integrated into this study. The output exhibited that the Cash Conversion Cycle has a significant and negative influence on Return on Assets in regression models one and two, which means that shorter the cash conversion cycle better the performance of firms. Therefore, hypothesis one is accepted. Also, the positive and insignificant nature of the moderating variable of the Exchange Rate multiplied by the Cash Conversion Cycle shows that Exchange Rate does not affect the relationship between Cash Conversion Cycle and the firm's Return on Assets. It was concluded that the exchange rate does not have moderating effect on the relationship between working capital management and firm performance.

***Keywords**: cash conversion cycle, exchange rate, firms' performance, working capital management*

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