The impact of cash conversion cycle on firm profitability in different business cycles

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Working capital management includes an expansive set of activities relating to its collection, maintenance and payment which aims to determine the liquidity requirements of business units, managing the cash balances and short-term investments. According to conventional theories of working capital management, companies can improve their competitive position in addition to their liquidity, by manipulation of cash flows. Despite remarkable research that has been done in relation to working capital management, there has not been a survey on the impact of business cycles on the relationship between the cash conversion cycle and corporations performance in Tehran Stock Exchange so far. In this study by using data 110 companies, the impact of business cycles on the relationship between the cash conversion cycle and corporations performance is addressed. The results indicate that there is a significant and positive relationship between the cash conversion cycle and corporations performance and periods of economic boom and recession, decreases the relevance of this relationship. Moreover based on the results, companies regarding "to be cyclic or non-cyclic" and "company size", are affecting on the impact of business cycles on the cash conversion cycle on profitability, so that being cyclic and small during economic boom and recession, decreases the relationship between the cash conversion cycle and profitability.

Keywords : working capital management, cash conversion cycle, business cycles, companies financial performance