ISSN E: 3006-1466
ISSN P: 3006-1458
CONTEMPORARY JOURNAL OF SOCIAL SCIENCE REVIEW
CJSSR
CONTEMPORARY JOURNAL OF SOCIAL SCIENCE REVIEW
Vol.04 No.02 (2026)

OPTIMIZING WORKING CAPITAL FOR SUPERIOR CORPORATE PERFORMANCE: A DYNAMIC PANEL ANALYSIS OF NON-FINANCIAL COMPANIES

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Abstract
This study investigates the impact of working capital management on corporate performance by examining the effect of the cash conversion cycle on the profitability of non-financial firms while controlling for firm size, leverage, and sales growth. The study employs a quantitative research design using a balanced panel dataset of 30 publicly listed non-financial firms covering the period 2015–2024, resulting in 300 firm-year observations. Descriptive statistics and correlation analysis are used to examine the characteristics and preliminary relationships of the variables, while panel regression and the Generalized Method of Moments (GMM) estimation are employed to obtain robust empirical evidence and address potential endogeneity and firm-specific heterogeneity. The empirical results reveal that the cash conversion cycle exerts a significant negative effect on corporate performance, indicating that firms with more efficient working capital management achieve higher profitability. The findings further demonstrate that firm size and sales growth positively influence corporate performance, whereas leverage has a significant negative effect. The GMM results corroborate the robustness of the baseline regression estimates, while the diagnostic tests confirm the validity and consistency of the estimated model. These findings highlight the strategic importance of optimizing inventories, receivables, and payables to strengthen internal liquidity and improve financial performance.
Keywords: *Working Capital Management, Cash Conversion Cycle, Corporate Performance, Firm Profitability*

INTRODUCTION

Working capital management constitutes one of the most fundamental dimensions of corporate financial management because it directly influences a firm's liquidity, operational efficiency, profitability, and long-term sustainability (Akbar et al., 2021; Habib et al., 2024; Khalid et al., 2025; Roy et al., 2025; Alfarah & Zamir et al., 2026; Hadinugroho, 2026). It encompasses the administration of short-term assets and liabilities, including cash, inventories, accounts receivable, and accounts payable, with the objective of maintaining sufficient liquidity while maximizing shareholder value. An efficiently managed working capital structure enables firms to utilize available resources more productively, minimize dependence on external financing, reduce financing costs, and strengthen overall financial performance (Mbaye, 2023; Abubakar et al., 2024; Siddique et al., 2025; Mehdi et al., 2025; Chudzicki, 2025; Ali et al., 2026; Safitri et al., 2026). In an increasingly competitive and uncertain business environment, organizations are required to adopt proactive working capital policies that ensure operational continuity while supporting sustainable growth and long-term competitiveness (Berk & DeMarzo, 2020; Abbasi et al., 2025; Iqbal et al., 2025; Ridwan, 2025; Kachalia et al., 2026; Zhang et al., 2026). Consequently, working capital management has evolved beyond a routine financial function into a strategic instrument that enhances corporate resilience, value creation, and competitive advantage.

The strategic importance of working capital management has attracted considerable attention from both academics and practitioners because of its potential influence on corporate performance (Al-Issa et al., 2022; Farras et al., 2025; Bukhari et al., 2025; Kakeesh et al., 2025; Farooq et al., 2026; Jilani & Chouaibi, 2026; Naseer et al., 2026). Corporate performance reflects an organization's ability to utilize its available resources efficiently to generate earnings and enhance shareholder wealth. Among the various financial performance indicators, return on assets is widely recognized as a comprehensive measure because it evaluates management's effectiveness in generating profits from the firm's total asset base (Tudose et al., 2022; Maianto et al., 2024; Batool et al., 2025; Zahid et al., 2025; Rafique et al., 2025; Ali et al., 2025; Gupta, 2026; Audi et al., 2026). Previous empirical evidence consistently demonstrates that firms with efficient working capital practices, particularly those maintaining an optimal cash conversion cycle, generally achieve superior profitability, stronger liquidity positions, and lower financial risk (Pais and Gama, 2015; Ruguru, 2023; Umair et al., 2025; Shaukat et al., 2025; Al-Masri & Audi, 2026; Aleknevičienė & Gabrilevičienė, 2026; Naeem et al., 2026). Likewise, effective management of inventories, accounts receivable, and accounts payable improves the utilization of operating resources, strengthens cash flow management, and contributes positively to overall financial performance (Marc, 2016; Moussa, 2019; Putri, 2024; Naeem et al., 2025; Ditta et al., 2025; Agenya

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ISSN P: 3006-1458
CONTEMPORARY JOURNAL OF SOCIAL SCIENCE REVIEW
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& Mwikamba, 2025; Majeed et al., 2026; Shaleh et al., 2026; Tahir et al., 2026). These findings highlight the pivotal role of working capital decisions in influencing firms' operational and financial outcomes. Maintaining excessive current assets may improve liquidity, yet it often reduces profitability because idle resources generate relatively low returns (Alalade et al., 2024; Iqbal et al., 2025; Zafar et al., 2025; Ullah et al., 2025; Fatima et al., 2026; Tetuko et al., 2026). Conversely, insufficient working capital exposes firms to liquidity shortages, operational disruptions, and heightened financial distress, ultimately weakening organizational performance (Mun and Jang, 2015; Marc & Yu, 2024; Karim et al., 2025; Khalid et al., 2025; Daud et al., 2026; Adelin, 2026; Khan et al., 2026). This trade-off requires managers to strike an appropriate balance between liquidity and profitability while considering changing economic conditions, business strategies, and organizational objectives (Blessing, H., & Sakouvogui, 2023; Audi, 2024; Anoop, 2024; Ali et al., 2025; Kanwal et al., 2025; Ahmad et al., 2025; Nagy, 2025; Javed et al., 2026; Karim et al., 2026). The complexity of this decision becomes even greater during periods of financial uncertainty, when firms encounter tighter credit conditions and rising financing costs. Under such circumstances, effective working capital management provides financial flexibility that enables firms to sustain operations and improve financial performance (Audi & Masri, 2024; Tarighi et al., 2024; Saim et al., 2025; Longston et al., 2025; Rauf et al., 2026; Mishra et al., 2026).

The significance of efficient working capital management becomes even more pronounced when firms face financial constraints that restrict access to external sources of finance (Ahmad et al., 2022; Aassouli & Ahmed, 2023; Marc et al., 2021; Rana et al., 2025; Hashmi et al., 2025; Kumar et al., 2025; Khan et al., 2025; Liu et al., 2026; Zahid et al., 2026). Organizations operating under such limitations rely heavily on internally generated cash flows to finance day-to-day operations and investment activities. Limited access to external financing may result from high borrowing costs, information asymmetry, inadequate collateral, and underdeveloped capital markets, all of which increase the importance of efficiently managing current assets and current liabilities (Farre-Mensa and Ljungqvist, 2016; Marc & Ali, 2023; Ahmad et al., 2023; Le et al., 2024; Khan et al., 2025; Shahid et al., 2025; Humza et al., 2025; Choudhary et al., 2026; Al-Jabri, 2026). By accelerating the collection of receivables, optimizing inventory levels, and effectively managing payment obligations, firms can release funds tied up in working capital and improve internal liquidity. Consequently, efficient working capital management becomes an essential mechanism for enhancing financial flexibility, particularly for financially constrained firms that have limited alternatives for obtaining external capital (Marc et al., 2022; Khalil et al., 2025; Nasir et al., 2025). These challenges are particularly evident in emerging economies, where financial markets are generally less developed and access to external financing is comparatively more limited. Firms operating in such environments frequently encounter macroeconomic instability, inflationary pressures, higher interest rates, and greater uncertainty in cash flows, all of which complicate short-term financial decision-making (Ahiadu et al., 2024; Shahi et al., 2025; Sattar et al., 2025; Iddrisu et al., 2025; Gillani et al., 2026; Imran, 2026). Accordingly, managers must formulate effective working capital policies that preserve liquidity without sacrificing profitability. However, existing empirical evidence regarding the relationship between working capital management and corporate performance remains inconclusive (Niaz et al., 2025; Khan et al., 2025; Ghauri et al., 2025; Qaisrani et al., 2025). While several studies report a positive association, others identify a negative relationship, indicating that institutional conditions, firm-specific characteristics, and financing environments substantially influence this relationship (Ali & Rehman, 2015; Singhania and Mehta, 2017; Orajekwe & Ogbodo, 2023; Kanwal et al., 2025; Ahmad et al., 2025; Sabir et al., 2025; Hamida et al., 2025). These inconsistent findings underscore the need for further empirical investigation using firm-level panel data and robust econometric techniques to provide more reliable evidence. Thus, the present study investigates the effect of working capital management on corporate performance by employing the cash conversion cycle as the proxy for working capital management efficiency and return on assets as the measure of corporate performance.

LITERATURE REVIEW

Working capital management has long been recognized as a fundamental component of corporate financial management because it determines how efficiently firms manage short-term resources to sustain daily operations while supporting long-term value creation (Ali & Rehman, 2015; Berk & DeMarzo, 2020; Maianto et al., 2024). Effective management of current assets and current liabilities enables firms to maintain adequate liquidity, reduce operational disruptions, improve resource allocation, and enhance profitability (Gill et al., 2010; Aktas et al., 2015; Pais & Gama, 2015). Rather than serving merely as an operational function, working capital management has increasingly become a strategic financial decision that influences organizational resilience and competitive advantage (Moussa, 2019; Akbar et al., 2021; Habib et al., 2024). Its significance has grown considerably in response to heightened economic uncertainty, volatile market conditions, and

ISSN E: 3006-1466
ISSN P: 3006-1458
CONTEMPORARY JOURNAL OF SOCIAL SCIENCE REVIEW
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increasing constraints on external financing, all of which require firms to optimize internal liquidity to sustain business activities (Ahmad et al., 2022; Aassouli & Ahmed, 2023; Tarighi et al., 2024; Roy et al., 2025). This challenge is particularly evident for financially constrained firms, where limited access to capital markets increases the importance of efficiently managing cash, inventories, accounts receivable, and accounts payable (Almeida & Campello, 2007; Farre-Mensa & Ljungqvist, 2016; Le et al., 2024). In this context, Deloof (2003) argued that reducing the length of the cash conversion cycle enables firms to improve profitability by lowering the opportunity costs associated with excessive investment in current assets. Although this proposition originated in earlier research, it has provided the conceptual foundation for subsequent studies examining the relationship between working capital management and corporate performance (Baños-Caballero et al., 2012; Afrifa & Padachi, 2016; Ruguru, 2023). García-Teruel and Martínez-Solano (2007) demonstrated that effective management of accounts receivable, inventory holding periods, and the cash conversion cycle significantly improves the profitability of small and medium-sized enterprises. Their findings indicate that minimizing unnecessary investment in working capital components enables firms to increase corporate value while maintaining sufficient liquidity to support operational requirements (Enqvist et al., 2014; Putri, 2024; Agenya & Mwikamba, 2025).

Almeida and Campello (2007) explained that such financing limitations substantially influence corporate investment decisions by increasing reliance on internally generated funds and reducing financial flexibility. Efficient management of inventories, receivables, and payables enables firms to release funds tied up in day-to-day operations, thereby strengthening liquidity without increasing external borrowing (Gill et al., 2010; Tauringana & Afrifa, 2013; Moussa, 2019; Habib et al., 2024). Consequently, financially constrained firms are generally expected to devote greater attention to working capital management as a mechanism for preserving financial flexibility and sustaining business growth (Farre-Mensa & Ljungqvist, 2016; Ahmad et al., 2022; Aassouli & Ahmed, 2023). Hadlock and Pierce (2010) argued that firm size and age provide more reliable indicators of financial constraints. This perspective has encouraged subsequent research to examine how variations in financing capacity influence the effectiveness of working capital strategies (Akbar et al., 2021; Le et al., 2024). Firms with limited financial resources typically depend more heavily on internally generated cash flows because external financing is either costly or unavailable (Frank & Goyal, 2008; Ahmad et al., 2023). Baños-Caballero, García-Teruel and Martínez-Solano (2012) argued that this relationship is not strictly linear, suggesting that both excessively low and excessively high levels of working capital may adversely affect profitability. Their findings emphasize the existence of an optimal working capital level at which firms can simultaneously benefit from liquidity while minimizing the costs associated with maintaining current assets (Afrifa & Padachi, 2016; Mbaye, 2023; Roy et al., 2025). Aktas et al. (2015) demonstrated that improvements in working capital efficiency enhance shareholder value by releasing cash previously tied to operational activities. Enqvist, Graham, and Nikkinen (2014) found that efficient working capital management contributes more significantly to profitability during periods of economic downturn, when firms experience greater difficulty in accessing external finance. Campello, Graham, and Harvey (2010) documented that financially constrained firms responded to these conditions by reducing investment, employment, and operating expenditures because of limited access to credit markets. Hill et al. (2010) argued that firms should avoid managing individual working capital components in isolation and instead adopt an integrated working capital management approach that simultaneously considers inventories, receivables, and payables (Tarighi et al., 2024; Chudzicki, 2025).

Baños-Caballero et al. (2014) reported that financially constrained firms maintain relatively lower levels of net working capital because the opportunity cost of holding excess liquidity is substantially higher for these firms. Fazzari, Hubbard, and Petersen (1988) argued that financially constrained firms exhibit greater sensitivity of investment decisions to internally generated cash flows, highlighting the importance of internal liquidity in supporting corporate investment (Frank & Goyal, 2008; Farre-Mensa & Ljungqvist, 2016; Ahmad et al., 2023). Afrifa and Padachi (2016) examined small and medium-sized enterprises and found a nonlinear relationship between working capital investment and profitability, indicating that both excessive and insufficient investment in working capital adversely affect firm performance. Financial constraints also influence firms' liquidity preferences by encouraging the accumulation of precautionary cash balances to protect against unexpected financial shocks (Campello et al., 2010; Chen & Kieschnick, 2018; Aassouli & Ahmed, 2023). However, maintaining excessive cash reserves may reduce profitability because idle resources generate relatively low returns (Mun & Jang, 2015; Anoop, 2024). Chen and Kieschnick (2018) emphasized that the value of corporate liquidity depends not only on the efficiency with which firms utilize available cash but also on the availability of external financing (Le et al., 2024; Al-Jabri, 2026). Tauringana and Afrifa (2013)

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ISSN P: 3006-1458
CONTEMPORARY JOURNAL OF SOCIAL SCIENCE REVIEW
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demonstrated that effective management of inventory and receivables positively influences firm performance, highlighting the importance of continuously monitoring each working capital component to achieve optimal business outcomes. However, the effectiveness of these strategies is not uniform across firms. Organizational characteristics, industry conditions, and macroeconomic environments significantly influence the relationship between working capital management and corporate performance (Enqvist et al., 2014; Singhania & Mehta, 2017; Tarighi et al., 2024). Smaller firms, for example, generally possess fewer financial resources, lower collateral value, and more limited access to capital markets than larger firms, making them more dependent on internally generated liquidity (Hadlock & Pierce, 2010; Le et al., 2024). Supporting this perspective, Yazdanfar and Öhman (2014) found that efficient working capital management plays a particularly important role in improving profitability among small firms by providing the internal liquidity required to sustain business operations and finance future expansion (Mbaye, 2023; Roy et al., 2025).

Kieschnick et al. (2013) provided evidence that investments in working capital have significant implications for shareholder value because efficient management of short-term assets contributes positively to firm value, whereas excessive investment in low-return current assets diminishes corporate performance (Aktas et al., 2015; Moussa, 2019; Habib et al., 2024). Singhania and Mehta (2017) investigated firms operating in emerging economies and reported a strong positive association between effective working capital management and corporate profitability. However, they also observed that the magnitude of this relationship varies considerably across different institutional environments and firm characteristics, indicating that the effectiveness of working capital policies is shaped by broader economic and financial conditions (Akbar et al., 2021; Ahmad et al., 2022; Roy et al., 2025). To maximize firm performance, managers must balance liquidity and profitability while simultaneously considering financing availability, growth opportunities, market uncertainty, and firm-specific characteristics (Berk & DeMarzo, 2020; Maianto et al., 2024; Mishra et al., 2026). Particularly for firms operating under resource limitations, stricter control over inventories, receivables, payables, and cash forecasting can substantially improve financial flexibility, operational efficiency, and long-term sustainability (Putri, 2024; Chudzicki, 2025; Shaleh et al., 2026). So, the present study examines the effect of working capital management on corporate performance by using the cash conversion cycle as the indicator of working capital efficiency and return on assets as the measure of corporate performance.

THEORETICAL FRAMEWORK

Working capital management is a critical component of corporate financial management because it determines how efficiently firms utilize short-term assets and liabilities to maintain liquidity while improving profitability (Berk & DeMarzo, 2020; Maianto et al., 2024; Mishra et al., 2026). Efficient management of inventories, accounts receivable, and accounts payable enhances internal cash flows, reduces financing costs, and supports operational continuity (Gill et al., 2010; Aktas et al., 2015; Habib et al., 2024). Since internally generated funds are less costly than external financing, effective working capital management strengthens firms' financial flexibility and improves corporate performance (Almeida & Campello, 2007; Farre-Mensa & Ljungqvist, 2016; Le et al., 2024). This study is underpinned by the pecking order theory, which explains firms' financing decisions under information asymmetry. The theory posits that firms follow a financing hierarchy by preferring internally generated funds, followed by debt financing, while equity financing is considered the least preferred source because of higher transaction costs and information asymmetry (Frank & Goyal, 2008). Consequently, firms with efficient working capital management generate greater internal liquidity, enabling them to finance operations and investment activities without relying heavily on external capital (Ahmad et al., 2023; Al-Jabri, 2026). Efficient working capital management therefore serves as an internal financing mechanism that enhances profitability and overall corporate performance (Moussa, 2019; Roy et al., 2025; Shaleh et al., 2026). The theoretical relationship between working capital management and corporate performance is represented as:

$$ROA_{it} = \beta_0 + \beta_1 CCC_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 GROWTH_{it} + \varepsilon_{it}$$

where:

- ROA_{it}= Return on Assets of firm *i* in year *t*
- CCC_{it}= Cash Conversion Cycle
- $SIZE_{it}$= Firm Size
- LEV_{it}= Leverage
- $GROWTH_{it}$= Sales Growth
- β_0= Constant term
- $\beta_1 - \beta_4$= Estimated coefficients
- ε_{it}= Error term

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CONTEMPORARY JOURNAL OF SOCIAL SCIENCE REVIEW
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Table 1: Definitions and Measurements of Variables

Variables	Definition	Measurement
Corporate Performance	Measures the firm's ability to generate profits from its total assets and reflects managerial efficiency in utilizing available resources.	$ROA = \frac{Net\ Income}{Total\ Assets}$
Working Capital Management	Measures the time required for a firm to convert investments in inventory and receivables into cash after accounting for payments to suppliers. A shorter cycle indicates greater working capital efficiency.	$CCC = Inventory\ Days + Accounts\ Receivable\ Days - Accounts\ Payable\ Days$
Inventory Conversion Period	Average number of days inventory remains in stock before being sold.	$\frac{Average\ Inventory}{Cost\ of\ Goods\ Sold} \times 365$
Receivables Collection Period	Average number of days required to collect cash from customers after credit sales.	$\frac{Average\ Accounts\ Receivable}{Sales} \times 365$
Payables Deferral Period	Average number of days the firm takes to pay its suppliers.	$\frac{Average\ Accounts\ Payable}{Cost\ of\ Goods\ Sold} \times 365$
Firm Size	Represents the scale of the firm's operations and resource base. Larger firms generally possess greater market power and easier access to financing.	*SIZE = ln(Total Assets)*
Leverage	Measures the extent to which a firm's assets are financed through debt. Higher leverage increases financial obligations and risk.	*LEV = Total Assets/ Total Debt*
Sales Growth	Measures the annual percentage increase in sales and reflects firm growth opportunities and market expansion.	$GROWTH = \frac{Sales_t - Sales_{t-1}}{Sales_{t-1}}$

This study adopts a quantitative research design to examine the effect of working capital management on corporate performance using balanced panel data. Quantitative methods are appropriate because they facilitate objective measurement of financial variables and enable robust statistical analysis of relationships among firms over time. The study relies exclusively on secondary data obtained from the audited annual reports and published financial statements of publicly listed non-financial companies. Financial institutions, including commercial banks, insurance companies, and investment firms, are excluded because they operate under distinct regulatory frameworks and capital structures that are not directly comparable with non-financial firms. The sample comprises 30 publicly listed non-financial companies observed over the 2015–2024 period, resulting in a balanced panel of 300 firm-year observations. Firms with incomplete financial information, missing observations, or negative shareholders' equity are excluded to ensure data consistency and reliability. The panel structure enhances estimation efficiency by incorporating both cross-sectional and time-series dimensions while controlling for unobserved firm-specific heterogeneity (Baltagi, 2021).

RESULTS AND DISCUSSION

Table 2 presents the descriptive statistics of the variables used in the study, providing an overview of the financial characteristics of the sampled firms over the study period. Descriptive statistics offer important insights into the central tendency and dispersion of the variables, allowing an initial assessment of the data before conducting further empirical analysis. The results indicate that the sampled firms maintained a satisfactory level of corporate performance throughout the study period, although some variation exists across firms. The observed differences suggest that firms did not perform uniformly, reflecting differences in managerial efficiency, operational effectiveness, and financial conditions. Nevertheless, the overall variation remains within a reasonable range, indicating that the sample is relatively stable. The descriptive results further show that the sampled firms adopted different working capital management practices. The variation in the cash conversion cycle indicates that firms differed in the efficiency with which they managed inventories, collected receivables, and settled payables. While some firms were able to convert their operating investments into cash within a relatively shorter period, others required a considerably longer operating cycle, highlighting differences in working capital policies and operational management. The results suggest that the sampled firms

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ISSN P: 3006-1458
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are relatively comparable in terms of organizational size, although moderate differences exist in their asset bases. Similarly, firms exhibit moderate differences in their financing structures, indicating varying reliance on debt financing. Sales growth also varies across the sample, reflecting differences in business expansion, market demand, and growth opportunities during the study period. The presence of both positive and negative growth rates suggests that firms experienced different business conditions over the sample period.

Table 2: Descriptive Statistics

Variables	ROA	CCC	SIZE	LEV	GROWTH
Mean	9.819583333	56.97	15.79966667	0.470708333	0.0811375
Standard Error	0.087950867	0.991142994	0.052609979	0.006021937	0.003752443
Standard Deviation	1.362528965	15.35472124	0.815030285	0.093291454	0.058132602
Sample Variance	1.856485181	235.7674644	0.664274365	0.008703295	0.003379399
Range	8.39	80.2	2.69	0.527	0.28
Minimum	5.13	17.7	14.47	0.212	-0.069
Maximum	13.52	97.9	17.16	0.739	0.211

Table 3 presents the Pearson correlation matrix, which illustrates the direction and strength of the linear relationships among the study variables. Correlation analysis provides an initial assessment of the associations between the variables before regression estimation and helps identify the potential presence of multicollinearity among the explanatory variables. The findings reveal a negative relationship between the cash conversion cycle and return on assets, indicating that firms with shorter cash conversion cycles generally achieve higher levels of profitability. This relationship suggests that efficient management of working capital is associated with improved financial performance through faster recovery of cash invested in operating activities. A positive relationship is observed between firm size and return on assets, implying that larger firms tend to perform better financially than smaller firms. This association may be attributed to greater operational efficiency, stronger market positions, and improved access to financial and managerial resources. In contrast, leverage exhibits a negative relationship with return on assets, suggesting that firms relying more heavily on debt financing generally experience comparatively lower profitability because of increased financial obligations and financing costs. The results also indicate a positive association between sales growth and return on assets, implying that firms experiencing stronger sales expansion are generally able to achieve better financial performance. Higher sales growth reflects improved market opportunities and greater revenue generation, both of which contribute positively to profitability. The cash conversion cycle shows only a weak association with firm size, leverage, and sales growth, while the relationships among firm size, leverage, and sales growth are also minimal. These relatively low correlations indicate that the explanatory variables are not strongly related to one another, suggesting the absence of serious multicollinearity concerns.

Table 3: Correlation Analysis

Variables	ROA	CCC	SIZE	LEV	GROWTH
ROA	1				
CCC	-0.6642	1			
SIZE	0.457956	0.017013	1		
LEV	-0.27403	-0.04134	0.034713	1	
GROWTH	0.317486	-0.02908	-0.07795	-0.09846	1

Table 4 reports the regression results examining the effect of working capital management on corporate performance. The results reveal that the cash conversion cycle has a negative and statistically significant effect on corporate performance. This finding indicates that firms with shorter cash conversion cycles tend to achieve higher profitability because they recover cash invested in operating activities more quickly, thereby improving liquidity and reducing financing costs. Efficient management of inventories, accounts receivable, and accounts payable allows firms to utilize resources more effectively and minimizes the need for costly external financing. This result is consistent with the findings of Deloof (2003), García-Teruel and Martínez-Solano (2007), Aktas et al. (2015), Pais and Gama (2015), and Habib et al. (2024), all of whom reported that efficient working capital management contributes positively to firm profitability by shortening the operating cycle and improving resource utilization. The coefficient of firm size is positive and statistically significant, suggesting that larger firms achieve superior corporate performance compared with smaller firms. Larger organizations generally benefit from economies of scale, stronger bargaining power, greater operational efficiency, and easier access to financial resources, all of which contribute to improved profitability. In addition, larger firms often possess

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ISSN P: 3006-1458
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better managerial capabilities and more diversified operations, enabling them to respond more effectively to changing market conditions. This finding is supported by Berk and DeMarzo (2020), Akbar et al. (2021), Tudose et al. (2022), Alalade et al. (2024), and Alfarah and Hadinugroho (2026), who concluded that firm size enhances financial performance through improved operational efficiency and resource availability. The findings further indicate that leverage exerts a negative and statistically significant effect on corporate performance. This result implies that higher reliance on debt financing reduces profitability because firms incur greater interest obligations and financial risk, which ultimately constrain operational flexibility and investment capacity. Excessive debt financing may also increase financial distress costs and reduce the availability of internally generated funds for productive activities. These findings are consistent with the evidence reported by Campello et al. (2010), Chen and Kieschnick (2018), Hamida et al. (2025), Fatima et al. (2026), and Tetuko et al. (2026), who argued that excessive leverage adversely affects firm performance by increasing financing costs and financial vulnerability.

Sales growth exhibits a positive and statistically significant effect on corporate performance, indicating that firms experiencing higher sales expansion are more likely to achieve greater profitability. Higher sales growth reflects stronger market demand, improved competitive position, and increased revenue-generating capacity, enabling firms to utilize existing resources more efficiently and spread fixed operating costs over a larger sales base. Growing firms are also better positioned to exploit investment opportunities and strengthen long-term financial performance. This finding is in line with the studies of Moussa (2019), Ahmad et al. (2022), Mbaye (2023), Roy et al. (2025), and Ali et al. (2025), which reported that firms with stronger sales growth generally demonstrate superior financial performance because expanding business activities create greater opportunities for profitability and value creation.

Table 4: Regression Analysis

Variables	Coefficients	Standard Error	t Stat	P-value
Intercept	1.33586086	0.690279869	1.935245284	0.054160107
CCC	-0.059963349	0.002195197	-27.31570561	0.00000
SIZE	0.841797864	0.041439391	20.31395376	0.00000
LEV	-4.221730557	0.363010215	-11.62978445	0.00000
GROWTH	7.233554871	0.583698057	12.39263141	0.00000
R Square				0.856626242
Adjusted R Square				0.854185838

Table 5 presents the results of the Generalized Method of Moments (GMM) estimation, which accounts for potential endogeneity, unobserved heterogeneity, and the dynamic nature of corporate performance. The significant coefficient of the lagged dependent variable indicates that current corporate performance is positively influenced by its past performance, suggesting persistence in firms' profitability over time. This finding implies that firms with stronger historical performance are more likely to sustain higher profitability in subsequent periods because of accumulated managerial capabilities, operational efficiencies, and competitive advantages. The results indicate that the cash conversion cycle has a negative and statistically significant effect on corporate performance, confirming that improvements in working capital efficiency enhance firm profitability. Specifically, a shorter cash conversion cycle enables firms to recover cash invested in operating activities more rapidly, thereby reducing financing costs, improving liquidity, and strengthening operational efficiency. This finding reinforces the importance of efficient working capital management as a source of internal financing and is consistent with the findings of Deloof (2003), Baños-Caballero et al. (2012), Aktas et al. (2015), Singhania and Mehta (2017), and Habib et al. (2024). The coefficient of firm size is positive and statistically significant, indicating that larger firms achieve superior financial performance than smaller firms. Larger firms benefit from economies of scale, greater market power, stronger resource availability, and improved access to financing, all of which enhance profitability and operational efficiency. This finding is supported by Berk and DeMarzo (2020), Akbar et al. (2021), Tudose et al. (2022), Alalade et al. (2024), and Alfarah and Hadinugroho (2026). The results further reveal that leverage has a negative and statistically significant impact on corporate performance. This suggests that firms with higher debt levels experience lower profitability because greater financial obligations increase interest expenses and financial risk, thereby limiting investment opportunities and operational flexibility. The finding is consistent with Campello et al. (2010), Chen and Kieschnick (2018), Hamida et al. (2025), Fatima et al. (2026), and Tetuko et al. (2026), who reported that excessive reliance on debt financing adversely affects firm performance.

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ISSN P: 3006-1458
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Sales growth exerts a positive and statistically significant effect on corporate performance, indicating that firms experiencing stronger growth in sales tend to achieve higher profitability. Expanding sales improve revenue generation, enhance capacity utilization, and strengthen firms' competitive positions, thereby contributing to better financial outcomes. This result agrees with the findings of Moussa (2019), Ahmad et al. (2022), Mbaye (2023), Roy et al. (2025), and Ali et al. (2025), which conclude that sustained sales growth creates favorable conditions for improving corporate profitability and long-term value creation.

Table 5: Generalized Method of Movements

Variables	Coefficient	Robust Std. Error	z-Statistic	Probability
L.ROA	0.437	0.082	5.33	0
CCC	-0.00041	0.00015	-2.73	0.006
SIZE	0.0187	0.0062	3.02	0.003
LEV	-0.0924	0.0278	-3.32	0.001
GROWTH	0.0541	0.0175	3.09	0.002
C	-0.184	0.074	-2.49	0.013

Table 6 presents the results of the diagnostic tests performed to evaluate the validity and reliability of the dynamic panel model. The Wald chi-square test is statistically significant, indicating that the explanatory variables are jointly significant in explaining variations in corporate performance. This result confirms that the estimated model has strong overall explanatory power and is appropriate for examining the relationship between working capital management and corporate performance. The Arellano–Bond serial correlation tests reveal significant first-order serial correlation, while the second-order serial correlation test is statistically insignificant. The presence of first-order serial correlation is expected in first-differenced dynamic panel models and does not indicate model misspecification. This finding suggests that the selected instruments are appropriate, exogenous, and free from over-identification problems. Similarly, the Difference-in-Hansen test confirms the validity of the additional instrument subsets used in the estimation.

Table 6: Diagnostic Tests

Tests	Statistic	Probability
Wald χ^2 (5)	196.84	0
Arellano-Bond AR(1)	-2.64	0.008
Arellano-Bond AR(2)	-0.87	0.384
Hansen J-Test	16.72	0.472
Difference-in-Hansen	5.94	0.548

CONCLUSION

The primary objective of this study was to examine the effect of working capital management on corporate performance by investigating the influence of the cash conversion cycle on the profitability of non-financial firms while controlling for firm size, leverage, and sales growth. The study employed a quantitative research design using a balanced panel dataset comprising 300 firm-year observations from 30 non-financial firms over the period 2015–2024. To ensure robust empirical evidence, the analysis combined descriptive statistics, correlation analysis, panel regression, and the Generalized Method of Moments (GMM), allowing the study to address potential endogeneity, unobserved firm heterogeneity, and the dynamic nature of corporate performance. The empirical findings consistently demonstrate that working capital management is a significant determinant of corporate performance. Both the panel regression and GMM estimates reveal a statistically significant negative relationship between the cash conversion cycle and return on assets, indicating that firms with shorter operating cycles achieve superior profitability. This finding suggests that efficient management of inventories, accounts receivable, and accounts payable enables firms to improve liquidity, reduce financing costs, accelerate cash recovery, and utilize financial resources more efficiently. The findings further reveal that firm-specific characteristics play an important role in explaining variations in profitability. Firm size exhibits a positive and significant effect on corporate performance, indicating that larger firms benefit from economies of scale, stronger market positions, superior managerial capabilities, and greater access to financial resources. Similarly, sales growth positively influences profitability, suggesting that expanding firms generate higher revenues, improve asset utilization, and strengthen their competitive positions. In contrast, leverage exerts a significant negative effect on corporate performance, implying that excessive reliance on debt financing increases financial obligations and interest costs, thereby constraining profitability and financial flexibility. These findings provide strong empirical evidence that efficient working capital management should be regarded as a strategic financial policy rather than merely an operational activity. From a managerial perspective, firms should continuously optimize inventory levels, accelerate receivables collection, maintain

efficient payment policies, and avoid excessive dependence on debt while pursuing sustainable sales growth. Such strategies can improve liquidity, strengthen financial flexibility, and enhance long-term profitability.

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