The Effect of Liquidity Management on Finance Distress in Listed Non-financial Companies in Sri Lanka

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Abstract

This study aims to evaluate the effect of liquidity management on financial distress in listed non-financial companies on the Colombo Stock Exchange (CSE) under the highest market capitalization. The sample of this study includes annual reports of 50 listed non-financial companies in Sri Lanka for five years from 2019 to 2023. This research used secondary data; data taken from the annual reports. The independent variable is liquidity management, which consists of current ratio management, quick ratio management, solvency ratio management, and cash coverage ratio management. The current ratio, quick ratio, solvency ratio, and cash coverage ratio measure these variables. The dependent variable is financial distress, which is measured by Altman's Z-score model. Ordinary Least Square Regression was used to analyze the information in the reports to recognize liquidity management's impact on financial distress. The study concluded that the current ratio, quick ratio, and solvency ratio have a significant negative effect on financial distress. In contrast, the cash coverage ratio has a negative non-significant effect on financial distress. Based on the findings, it was recommended that listed companies implement accurate liquidity management methods to prevent bankruptcy. It was concluded that liquidity management is a precondition for financial distress in the listed non-financial corporations in Sri Lanka.

Keywords: Liquidity Management, Bankruptcy, Financial Distress, Listed Non-Financial Companies, Altman Z-score Model