



THE RELATIONSHIP BETWEEN
WORKING CAPITAL REQUIREMENT AND PROFITABILITY:
EVIDENCE FROM TOP LISTED COMPANIES IN MALAYSIA

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ABSTRACT

Working capital management involves the management of the most liquid resources of the firm which includes cash and cash equivalents, inventories, trade debtors and other receivables. Most firms do not ensure optimal level of working capital and this has been a major obstacle to their overall profitability. This study examined the relationship between working capital management and profitability of 30 top listed companies on Bursa Malaysia where the data of the company were collected from DataStream. Correlation and ex-post facto research design were used in a sample of 30 top firms from various sectors. Secondary data for a period of 10 years (2007-2016) was used. Random Effect multiple regression was employed in data analysis. Return on Assets (ROA) and Return on Equity (ROE) were used as dependent variables which are the proxies for profitability of the firms. Whereas, Company Growth (GROWTH), Debt Ratio (DR), Fixed Assets to Total Assets (FATA), Company Size (SIZE) and Cash Conversion Cycle (CCC) were used as the measurement (independent variables) of the working capital management. This study found that three of the independent variables (DR, SIZE and CCC) have significant relationship with profitability (ROA and ROE) while the other two of independent variables (GROWTH and FATA) have insignificant relationship with profitability of the firms selected.