



**UNIVERSITI TEKNOLOGI MARA**

**INVESTIGATING THE IMPACT OF WORKING  
CAPITAL MANAGEMENT ON FIRM'S  
PROFITABILITY: ANALYSIS FROM MALAYSIAN  
FORESTRY & PAPER INDUSTRY**

**NURUL AMIRA BINTI BADROLESHAM**

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## **ABSTRACT**

This paper is made to finding out about the impact of working capital management with profitability to the forestry & paper industry in Malaysia. By using the secondary data for analysis that retrieved from Data Stream, about 10 out of 12 companies was selected in Bursa Malaysia starting periods from 2007 until 2016. In this study, the dependent variable is profitability which is return on assets (ROA) while the independent variable are average collection period (ACP), inventory conversion period (ICP), average payment period (APP), current ratio (CR) and debt ratio (DR). Therefore, it highlights the importance of managing working capital requirement in order to measure the profitability of company performance. All of these variables are used E-views8 software in order to get the result either significant or not. By using regression model, average collection period (ACP), current ratio (CR) and debt ratio (DR) have a positive relationship with return on assets (ROA). Meanwhile, average payment period (APP) and inventory conversion period (ICP) have a negative significant with return on assets (ROA). Thus, the result of this research paper will help the investors to take steps of strategies and able to make decision based on the working capital management.

**Keywords:** working capital management, average collection period, inventory conversion period, average payment period, cash conversion cycle, current ratio, debt ratio, return on assets

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Introduction**

The intention of this study is to examine the relationship between working capital management on profitability performance of forestry and paper industry in Malaysia. This study was based on the 10 out of 12 listed companies from Bursa Malaysia for a 10 years starting from 2007 to 2016. In this chapter will discuss briefly on background of the study, problem statement, research objective, research question, significant of the study, scope of the study, limitation of study, definition of terms and summary of Chapter 1 will be discussed briefly. The relationship between dependent and independent variable also will be discussed. This study is to investigate the relationship between working capital management and firm's profitability.

To examine the relationship between working capital management and firm's profitability, the ratio of return on assets (ROA) was used as dependent variable and independent variables are inventory conversion period (ICP), average collection period (ACP), average payment period (APP), current ratio (CR) and debt ratio (DR).

#### **1.1.2 Overview of Working Capital Management on Profitability**

Working capital management plays as an important role in all corporate for the listed companies in Bursa Malaysia in order to raise capital for the business and investment activities since it is considered as a part of a company's operating capital. Efficient working capital management involves planning and controlling current assets and current liabilities in a manner that eliminates the risk of inability to meet due to short term obligations on the one hand and avoid excessive investment in these assets on the other hand. Short term assets means the assets can be liquidize in a year such as account receivable, cash and marketable securities. Meanwhile, short term debts means any debt