

A STUDY ON THE RELATIONSHIP BETWEEN WORKING CAPITAL MANAGEMENT AND
FIRMS' PROFITABILITY

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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 various selected firms that are listed 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 19 firms from various sectors. Secondary data for a period of 5 years (2011-2015) was used, Ordinary Least Squares (OLS) 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, Days Sales Outstanding (DSO), Days Inventory Outstanding (DIO), Days Payables Outstanding (DPO) and Cash Conversion Cycle (CCC) were used as the measurement (independent variables) of the working capital management. This study found that all of the independent variables (DSO, DIO, DPO and CCC) has insignificant relationship with profitability (ROA and ROE) of the firms selected.