AN INVESTIGATION OF PERFORMANCE IN WORKING CAPITAL MANAGEMENT

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Peace and blessings be upon Muhammad SAW, His servant and messenger.

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ABSTRACT

The main purpose of this study is to investigate the performance in working capital management of firm's and the factors that affect the performance. This study evaluates the performance in working capital management of firms' and determines whether factors like size, profitability, and current assets contribute to better performance. In addition, this study also intends to examine the impact of the performance in working capital management on the market prices of the shares. Working capital management plays a vital role in enhancing the economic performance of the corporate sector and thereby enhances the wealth of shareholders. Recently there have been reports about increase in number of corporate failures mainly due to lack of working capital performance and a majority of such firms are identified as small firms. An examination of 252 companies listed on the KLSE over a period of five years reveals that the size in terms of fixed assets and profitability of the firm influences the performance of working capital management positively. This study also provides evidence that there is a linear positive relationship between the performance in working capital management and the market prices of the shares. This study, for the first time, treated performance in working capital management as dependent variable and explained its significant relationship to the size of the firm. The findings of this study provide a useful insight for the researchers and corporate finance managers.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Generally the nations around the world are faced with the problem of inefficient utilization of economic resources such as fixed capital and working capital available to them. While financial management practices do provide a sound and effective framework for effective management of assets, it has been observed that the investment in fixed assets is receiving more attention from both management and researchers. Contrary to this, effective working capital management, which has been receiving little attention from the researchers, will yield more significant results on the financial performance of the company and for this reason demands more serious attention from the management and researchers.

Working capital is considered as the life-blood of any business and its performance has significant impact on the overall performance of the concerned firms. Dixon (1991) stated that working capital policy is a function of two decisions: the appropriate level of investment in currents assets and the chosen methods of financing the investment. He explained further that the level of company's current assets and working capital, in respect of the company's total corporate structure and flow of funds is a tradeoff between profitability and risk. Thus, if there were little risk, an aggressive working capital would be used whereby the company should maintain a minimum level of cash, securities,