

**IMPACT OF WORKING CAPITAL MANAGEMENT PRACTICES  
ON THE PROFITABILITY**



**BAHAGIAN PENYELIDIKAN & JARINGAN INDUSTRI  
UNIVERSITI TEKNOLOGI MARA CAWANGAN JOHOR  
KM 12, JALAN MUAR  
85009, SEGAMAT  
JOHOR DARUL TAKZIM**

**DISEDIAKAN OLEH :**

**ZARINA ABU BAKAR  
ABU THAHIR ABDUL NASSER**

## **PENGHARGAAN**

Setinggi-tinggi penghargaan dan ribuan terima kasih diucapkan kepada semua pihak yang terlibat secara langsung dan tidak langsung bagi membolehkan penyelidikan ini disiapkan dengan sempurna.

Diantaranya :

Prof. Madya Dr. Omar Samat  
*(Rektor UiTM Cawangan Johor)*

Prof. Madya Ahmad Nawawi Yaakob  
*(Timbalan Rektor Bahagian Penyelidikan & Jaringan Industri UiTM Cawangan Johor)*

Y.M. Dr. Raja Adzrin Raja Ahmad  
*(Ketua Pusat Pengajian Fakulti Perakaunan UiTM Cawangan Johor)*

dan

Semua yang telah memberikan kerjasama dan sokongan di dalam menjayakan penyelidikan ini.

## **ACKNOWLEDGEMENT**

**In the name of Allah, the Most Gracious, the Most Merciful,**

**All praises to Allah for all his blessings,**

**For giving us the will and endurance to complete this research**

Our deepest gratitude goes to our rector, Assoc. Prof. Dr. Omar bin Samat for his priceless advices and comments to help me find the courage and strength to successfully complete this research.

My gratitude also extended to Ketua Pusat Pengajian, Y.M. Dr. Raja Adzrin Raja Ahmad for the encouragement given and to all lecturers in the faculty who direct or indirectly have encouraged and guided us towards the completion of this research.

I also like to extend my special appreciation to all deputy rectors for their endless support. Thank you to all our parents and siblings for being there when we need them.

## TABLE OF CONTENTS

		PAGE
ACKNOWLEDGEMENT		i
TABLE OF CONTENTS		ii
LIST OF TABLES		iv
LIST OF FIGURES		v
ABSTRACT		vi
CHAPTER 1	INTRODUCTION	
1.1	Introduction	1
1.2	Problem Statement	4
1.3	Objective of the study	7
1.4	Significance of the study	7
1.5	Organization of the study	8
CHAPTER 2	LITERATURE REVIEW	
2.1	Introduction	9
2.2	Working Capital Management and Corporate Profitability	9
2.3	Trade-off Theory	12
2.4	Summary of the chapter	14
CHAPTER 3	RESEARCH METHODOLOGY	
3.1	Introduction	15
3.2	Variable and its Measurements	15
	3.2.1 Dependent Variable – Corporate Profitability	15
	3.2.2 Independent Variable – Working Capital Management	16
	3.2.3 Control Variable - Firm specific characteristic that influence corporate profitability	17
	3.2.3.1 Liquidity	17
	3.2.3.2 Leverage	18



The study aims to investigate the relationship between working capital management and its impact on corporate profitability of Malaysian companies. Net trade cycle is used as a tool to measure working capital management. Shorter net trade cycle signifies an efficient management of working capital, thus this will bring more profit to the company. Income to total assets (IA) and income to sales (IS) are used to measure the corporate profitability. The final sample of the study consists of 198 companies with 990 observations from five main industries on the Main Market (formerly separated as main and second boards) of Bursa Malaysia over a period of five years (2004 to 2008). Linear regression analysis was used to test the relationship between working capital management and corporate profitability.

The results show that there is a significant negative relationship between working capital management and corporate profitability. In addition, from the results of this study, it was found that the company with a shorter net trade cycle is associated with higher profitability. Overall it can be inferred that working capital management is one of the important components of companies' financial management that affect corporate profitability.