



**ASIAN CONFERENCE  
ON BUSINESS, ECONOMICS  
AND SOCIAL SCIENCES**

# **E - PROCEEDINGS ACBESS 2021**



UNIVERSITI  
TEKNOLOGI  
MARA

Cawangan Melaka

**JOINTLY ORGANIZED BY:**



SUNWAY  
UNIVERSITY  
Business School



**EDITORS**

**Mohamed Saladin Abdul Rasool  
Nor Tasik Misba  
Noormala Rabu  
Fadzlan Sufian  
Abdul Rahim Ridzuan**

## **Driving Factors for Adopting Working Capital Investment and Financing Policy: Evidence from Trading and Services Sector**

**Noryati Ahmad<sup>1\*</sup>, Mohammad Shahril<sup>2</sup>, Fahmi Abdul Rahim<sup>3</sup>**

<sup>1</sup>Faculty of Business and Management and Arshad Ayub Graduate Business School, Malaysia,

<sup>2</sup>Faculty of Accountancy, Malaysia

<sup>3</sup>Faculty of Business and Management, Universiti Teknologi MARA, Cawangan Melaka, Malaysia

\*Corresponding Author: noryatia@uitm.edu.my

---

**Abstract:** *Non-optimal working capital management is associated with inefficiency, high risk, poor company performance and ultimately bankruptcy. Company has an option to either implement conservative or aggressive working capital management policy. However, the rationale for adopting either conservative or aggressive working capital investment policy remains fuzzy. Hence, this paper seeks to examine empirically the driving factors affecting conservative and aggressive working investment policies used by Trading and Services sector listed in Bursa Malaysia. Four panel data regression models were established to examine if age, free cash flow, growth rate, leverage, profitability and size influence those policies. The duration of study covers from 2001 until 2017. Empirically the study revealed that all the identified independent variables are the driving factors for companies to apply conservative working capital investment policy. Only leverage is inversely related to CWCIP, AWCIP, CWCFCP and AWCFCP. Additionally, all trading and services companies seem to practice a targeted conservative/aggressive investment and financing policies since the lagged dependent variables are positive and statistically significant. Hence this paper enhances the existing growing and scarce literature on the determinants of working capital investment and financing policies. It also enables managers to have a better understanding of the rationale for practicing specific working capital policy and whether those policies taken are justified.*

**Keywords:** Conservative Working Capital Investment Policy, Aggressive Working Capital Investment Policy, Conservative Working Capital Financing Policy, Aggressive Working Capital Financing Policy