



UNIVERSITI TEKNOLOGI MARA

**THE EFFECT OF WORKING
CAPITAL MANAGEMENT ON
PROFITABILITY OF ELECTRONIC
AND ELECTRICAL EQUIPMENT
FIRMS**

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ABSTRACT

Working capital management (WCM) is crucial part in business yet this aspect is getting little attention of researchers. However, WCM is able to grab the attention of the researchers after financial crisis 2008. Capital budgeting, capital structure and dividends are the examples of traditional focus of corporate finance that involving long term financial decisions. WCM involved the management of current asset and current liabilities of firm. WCM is important as poor management of working capital lead to liquidity problem. This study investigates the relationship between WCM and profitability of electric and electronic equipment firms in Malaysia by using panel regressions. Electrical and electronic is one of the main exports of Malaysia. The firms must be able to manage their financing efficiently. This study using six companies listed in Bursa Malaysia for the period of 10 years which are from 2007 to 2016. The financial data of each company are obtained from Bursa Malaysia as it provides a reliable data of the companies. The dependent variable used in this study is return on asset (ROA) to measure the profitability while the independent variables are cash conversion cycle (CCC), current asset to total asset ratio (CATAR), current liabilities to total asset ratio (CLTAR), current ratio (CR) and debt ratio (DR). From the study, it revealed that CATAR, CLTAR and CR are significant with ROA while CCC and DR are not significant with ROA. CLTAR and CR are negative and significant with ROA while CATAR is significant and positive with ROA. It means that CATAR, CLTAR and CR give significant impact to ROA.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter introduce you about the topic of the effect of working capital management on the profitability of electrical and electronic equipment firms listed in Bursa Malaysia. There are many different industries in this world and this study chooses electrical and electronic equipment firms as the subject of the study. The reason behind this will be explained in this chapter. In this chapter, the overview of the topic will be given so that the readers can get an idea about what this research is all about. This chapter will begin with the background of the study followed by problem statement, research questions and objectives, significance of study, scope of the study, limitations of the study and definition of key terms. All the points will be explained briefly so that the readers able to understand this study.

1.2 Background of Study

Malaysia is a developing country which required the firms to have good financial management in order to stay competitive in the market. Electrical and electronic is one of the main export of Malaysia and efficient management of working capital is needed as the failure to do so may affect the economic growth of Malaysia. Working capital management (WCM) is crucial in business, yet there is still relatively small amount of research has been done about WCM. However, financial crisis in 2008 has attracted the researchers to conduct more research in this topic. This is because mismanagement of working capital is one of the reasons for most poor profitable firms (Ng, Ye, Ong, & Teh, 2017). According to 2015 Annual Global Working Capital Survey, it stated that Asia lags behind other regions in terms of working capital performance, as well as their ability to generate cash from operations.