The relationship between working capital management and profitability of construction firms in Malaysia

RANDA MOHAMMED SHAMS ADDIN AL-MAWSHEKI

MASTER OF SCIENCE (FINANCE)
UNIVERSITI UTARA MALAYSIA
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The relationship between working capital management and profitability of construction firms in Malaysia

RANDA MOHAMMED SHAMS ADDIN AL-MAWSHEKI

A Research Project Submitted to
Othman Yeop Abdullah Graduate School of Business
College of Business,
Universiti Utara Malaysia
In Fulfillment of the Requirements for the degree, Master of Science (Finance).
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Kedah Darul Aman
DECLARATION

I certify that the substance of this thesis has not already submitted for any degree and is not currently being submitted for any other qualifications.

I certify that any assistance received in preparing this thesis and all sources used have been acknowledged and referenced in this thesis.

Randa Mohammed Shams Addin Al-mawsheki

813057

Othman Yeop Abdullah Graduate School of Business

Universiti Utara Malaysia

06010 Sintok

Kedah

July 2014
Acknowledgement

First of all, I would like to express my deepest thankfulness to Allah, the Most Gracious the most Merciful, for giving me patience, strength to achieve this dissertation.

I would like to express my deepest sincere gratitude and appreciation to my supervisor, Associate Professor Norafifah Ahmad. Without her unconditional support, continuous guidance, supervision, insightful comments, and encouragement, the accomplishment of this research would not have been possible.

My warm deepest gratitude goes to my husband, Hani Qasem Assad who stood up with me until I completed my research. I would like to thank him for all the help and encouragement he gave me.

Special thanks go to my friends whose supporting and encouragement are really appreciated.

Finally, I would like to express my deepest gratitude and appreciation to my parents, my brothers and sisters who have always granted me unconditional support and love throughout my whole life.
Abstract

Working capital management has an important role to play in the firms’ profitability. This study, the relationship between working capital management and profitability of construction firms in Malaysia, investigates the effect of working capital management on profitability of construction firms in Malaysia for a period of time between 2002 and 2012. In order to do that, this study uses a balanced panel data of thirty construction firms that are on the list of Kuala Lumpur Stock Exchange. The results of the study show that cash conversion cycle, which is used as a proxy of working capital management, along with its components, receivable collection period and payable collection period are significantly negative having an effect on the firms’ profitability. However, the results show that the inventory collection period has a negative insignificant effect on the profitability. Additionally, there is a significant impact for the financial leverage, sales growth and firm size on the profitability of firms as well. The study comes to conclusion that the construction firms in Malaysia can develop their profitability by decreasing the inventory conversion period, cash conversion cycle, receivable collection period and payable collection period. The study comes to another conclusion and that is construction firms are required to focus and develop their collection and payment policy. The influential policies have to be formulated for the individual components of working capital. Moreover, the construction firms’ profitability can be increased by efficient management and financing of working capital (current assets and current liabilities).
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## LIST OF ABBREVIATIONS

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

Working capital management has a crucial and decisive role to play in companies due to its impact on each of the goals of profitability and liquidity as the working capital management takes care of both the current assets, and current liabilities and accounts of great significance in research and financial studies.

One of the main financial duties for any institution, and one of the primary demands to fulfill, is to retain a proper quantity of liquidity to make sure that it fulfills its commitments on time. An institution aims to maintain the proper quantity of current assets and, especially in the receivable accounts and inventory. Additionally, it aims to control over payable accounts and monitor them by making sure that there is a proper variation between them within the limit that ensures the institution is not subjected to the risks of failing in fulfilling its commitments in the short term.

There are two common concepts in working capital. The first one is the gross working capital concept, known as the institution's total investments in current assets, in other words, the assets which are changed into cash during period of a year. These assets are made up of securities, receivable accounts, cash and inventory.
The contents of the thesis is for internal user only
References


Appendix

Modell

Dependent Variable: ROA
Method: Panel EGLS (Cross-section weights)
Date: 05/17/14   Time: 20:07
Sample: 2002 2012
Periods included: 11
Cross-sections included: 30
Total panel (balanced) observations: 330
Linear estimation after one-step weighting matrix

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Cross-sections included: 30  
Total panel (balanced) observations: 330  
Linear estimation after one-step weighting matrix

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| F-statistic | 16.41125 | Durbin-Watson stat | 1.051335 |
| Prob(F-statistic) | 0.000000 |

Unweighted Statistics

| R-squared | 0.058418 | Mean dependent var | 3.177909 |
| Sum squared resid | 13039.53 | Durbin-Watson stat | 1.628908 |
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<td><strong>CCC</strong> Pearson Correlation</td>
<td>-0.044</td>
<td>1</td>
<td>-0.995**</td>
<td>0.866**</td>
<td>0.819**</td>
<td>0.016</td>
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<td>-0.078</td>
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<tr>
<td>Sig. (2-tailed)</td>
<td>.421</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.778</td>
<td>.406</td>
<td>.160</td>
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<td>-0.030</td>
<td>0.995**</td>
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<td>0.834**</td>
<td>0.841**</td>
<td>0.029</td>
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<tr>
<td>Sig. (2-tailed)</td>
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<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.600</td>
<td>.402</td>
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<td><strong>RCP</strong> Pearson Correlation</td>
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<td>0.866**</td>
<td>0.834**</td>
<td>0.833**</td>
<td>0.035</td>
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<td>0.841**</td>
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<td>0.055</td>
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<tr>
<td>Sig. (2-tailed)</td>
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<td>.322</td>
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<td><strong>SIZE</strong> Pearson Correlation</td>
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<td>0.016</td>
<td>0.029</td>
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<td>0.440**</td>
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<td>Sig. (2-tailed)</td>
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<td>.778</td>
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<td>.531</td>
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<td>Sig. (2-tailed)</td>
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<tr>
<td>Sig. (2-tailed)</td>
<td>.004</td>
<td>.160</td>
<td>.287</td>
<td>.188</td>
<td>.322</td>
<td>.000</td>
<td>.198</td>
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*Correlation is significant at the 0.05 level (2-tailed).

**Correlation is significant at the 0.01 level (2-tailed).*
Samples:

The names of the construction firms that were included in this study are as listed below:

1. A & M REALTY BERHAD
2. ASIAN PAC HOLDINGS
3. BERTAM ALLIANCE
4. COUNTRY VIEW BHD
5. DUTALAND BHD
6. ENCORP BERHAD
7. GLOBAL ORIENTAL BHD
8. FARLIM GROUP
9. HUA YANG BHD
10. I-BERHAD
11. IJM LAND BHD
12. KELADI MAJU BERHAD
13. KEN HOLDINGS BERHAD
14. LBI CAPITAL BHD
15. LBS BINA GROUP BHD
16. MAGNA PRIMA BERHAD
17. MALAYSIA PACIFIC
18. MEDA INCORPORATED
19. MKH BHD
20. MULPHA LAND BHD
21. ORIENTAL INTEREST
22. PJ DEVELOPMENT HLDGS
23. PARAMOUNT CORP BHD
24. PASDEC HOLDINGS
25. PETALING TIN BERHAD
26. SBC CORPORATION BHD
27. SELANGOR DREDGING
28. SP SETIA BHD
29. Y&G CORPORATION
30. YNH PROPERTY BHD