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**THE IMPACT OF WORKING CAPITAL MANAGEMENT,
DEBT AND SIZE ON SMES' PERFORMANCE:
EVIDENCE FROM MALAYSIA**



ISYAKU ALI

UUM
Universiti Utara Malaysia

**MASTER OF SCIENCE (FINANCE)
UNIVERSITI UTARA MALAYSIA**

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**THE IMPACT OF WORKING CAPITAL MANAGEMENT, DEBT AND SIZE
ON SMES' PERFORMANCE: EVIDENCE FROM MALAYSIA**



ISYAKU ALI

UUM

Universiti Utara Malaysia

**Thesis Submitted to
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**Pusat Pengajian Ekonomi,
Kewangan dan Perbankan**

SCHOOL OF ECONOMICS, FINANCE AND BANKING

Universiti Utara Malaysia

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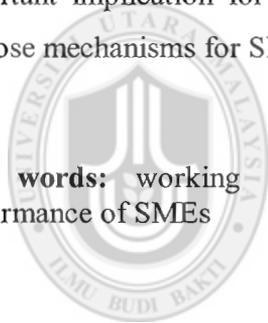


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ABSTRACT

The aim of this study is to provide empirical evidence on the impact of working capital management, debt and size on SMEs' performance in Malaysia focusing on the manufacturing sector. A panel data sample of 105 firms for the study was obtained from the Companies' Commission of Malaysia (CCM) for the period from 1996 to 2015. The Generalized Least Square (GLS) was used for testing the hypotheses of the study. The regression results show that accounts receivable period, inventory holding period, debt and size are significantly related to performance, whereas accounts payable period and cash conversion cycle are insignificantly related to performance. The results also showed accounts receivable period, accounts payable period and debt to have negative relationship with performance. But the remaining independent variables have positive relationship with performance. Furthermore, the findings have important implication for financial managers and policy-makers who regulate and propose mechanisms for SMEs development.

Key words: working capital management, small and medium enterprises, performance of SMEs



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ABSTRAK

Tujuan kajian ini adalah untuk menyediakan bukti empirikal mengenai kesan pengurusan modal kerja, hutang dan saiz terhadap prestasi PKS di Malaysia dengan menumpukan kepada sektor pembuatan. Sampel panel data yang mengandungi 105 syarikat digunakan dalam kajian yang diperolehi daripada Suruhanjaya Syarikat Malaysia (SSM) bagi tempoh 1996 hingga 2015. *Generalized Least Square* (GLS) telah digunakan untuk menguji hipotesis kajian. Keputusan regresi menunjukkan bahawa tempoh akaun penerimaan, tempoh memegang inventori, hutang dan saiz adalah signifikan dengan prestasi, manakala tempoh akaun pembayaran dan penukaran kitaran wang tunai adalah tidak signifikan dengan prestasi. Keputusan juga menunjukkan tempoh akaun penerimaan, tempoh akaun pembayaran dan hutang mempunyai hubungan negatif dengan prestasi. Tetapi pembolehubah bebas yang selebihnya mempunyai hubungan positif dengan prestasi. Tambahan pula, hasil kajian memberi implikasi penting bagi pengurus kewangan dan dasar yang mengawal selia dan mencadangkan mekanisme untuk pembangunan PKS.

Kata kunci: pengurusan modal kerja, industri kecil dan sederhana, prestasi PKS

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LIST OF ACRONYMS AND ABBREVIATIONS

WCM - working capital management

SMEs - small and medium enterprises

ARP - accounts receivable period

APP - accounts payable period

IHP - inventory holding period

CCC - cash conversion cycle



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CHAPTER ONE

Background of the Study

1.0 Introduction

The performance of Small and Medium Enterprises (SMEs) is defined as their ability to create employment and enhance economic growth by establishing business, survival and sustainability (Sandberg, Vinberg & Pan, 2002). The SMEs performance could also have an effect on major stakeholders in the sector such as financial creditors, trade debtors, trade creditors and company employees. Thus, the performance of SMEs has a far-reaching impact on the Malaysian economy directly or indirectly. SMEs Performance is a key to the transformation of Malaysia into a high-income and knowledge-based economy by their contribution to the nation's Gross Domestic Product (GDP). According to Moorthy, Tan, Choo, Wei, Ping & Leon (2012) that in spite of their vital role to employment generation and economic growth, the number of Malaysian SMEs within one year period decreased from 17,157 firms in 2010 to 16,893 firms in 2011.

Previous studies documented that the deteriorating performance of SMEs resulted to high rate of business failure as a result of their inability to overcome various challenges. Reiss (2006) and Ahmad and Seet (2009) mentioned that due to poor performance of SMEs, about 50 percent failed in many nations around the globe. In the context of Malaysia, the challenges affecting SMEs performance are highlighted in the findings of SMI Development Plan 2001–2005 (SMIDEC, 2002), the UPS survey (2005) among others; and based on estimation, studies reported 60 percent failure rate of SMEs in Malaysia, (Portal Komuniti, 2006; Ahmad and Seet, 2009).

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