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THE EFFECTS OF WORKING CAPITAL MANAGEMENT ON SME’s PROFITABILITY IN MALAYSIA

MOW JIUN YOU

MASTER OF SCIENCE (FINANCE)
UNIVERSITI UTARA MALAYSIA
FEBRUARY 2017
THE EFFECTS OF WORKING CAPITAL MANAGEMENT ON SME’s PROFITABILITY IN MALAYSIA

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Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Partial Fulfillment of the Requirement for the Master of Sciences
(Finance)
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memuaskan.
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the project paper).

Nama Penyelia
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Tandatangan
(Signature)

Tarikh
(Date) 19 FEBRUARY 2017
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Kedah Darul Aman
The inefficient management of working capital not only reduces profitability but in the end may also lead a concern to financial crisis thus every organization regardless of its profit orientation, size and nature of business, needs requisite amount of working capital. Consequently, the efficient working capital management is the most crucial factor in maintaining survival, liquidity, solvency and profitability of the concerned business organization. The objective of this study is to assess the influence of working capital components on the profitability of selected small and medium enterprises (SMEs) in Malaysia. Deductive approach has been incorporated and chose positivism research philosophy. The sample sizes of 58 SMEs have been selected for gathering the financial information in the study. The Statistical Package for Social Sciences (SPSS) has been applied in the study. The relevant data has been gathered for the time frame of five years i.e. 2010 to 2014. Result shows that it is a significant relationship between the working capital management and profitability of the selected firms. Thus, these findings have been suggested to the small and medium enterprises to minimize its borrowings in order to reduce the risk in the company. Moreover, the small and medium enterprises are recommended that they should improve their receivable cycle to ensure that cash is recovered from the parties. Therefore, firms can provide the discount to the clients in order to collect their account receivables.

KEY WORDS: working capital, working capital components, profitability, small and medium enterprises (SMEs), Malaysia.
ABSTRAK


KATA KUNCI: modal kerja, komponen modal kerja, keuntungan, perusahaan kecil dan sederhana (PKS), Malaysia.
ACKNOWLEDGEMENT

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Secondly, I would like to express my sincere gratitude to my parents for their endless love, utmost assistance (financially and mentally) and prayers throughout my life. Apart from that, I also would like to take this opportunity to thank to Companies Commission of Malaysia (CCM) for their corporate and speedy response in providing the data used in this study. Last but not least, thanks to all my friends, course mates, and colleagues, those have been contributed by supporting my work throughout my study.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The concept of working capital is referred to as a firm financial position which plays a significant role in maximizing the shareholders’ wealth when it maximizes the profits. In order to provide more return on its assets and minimal payment for the liabilities of the firm, it should be able to control the short-term assets and liabilities effectively and efficiently by means of the working capital management. Efficiency in working capital management is a need for every firm to sustain a balance between liquidity and profitability. According to Duggal & Budden (2012), working capital management involves managing the short-term assets and short-term liabilities by optimizing its net working capital need which is from the difference between short-term assets and short-term liabilities.

Short-term or current assets and liabilities are vital components of the net working capital and therefore firms need to be more careful of analyzing them as they play a key role towards the profitability, risks, and the values of firms (Afza & Nazir, 2011 and Smith, 1973). Ganesan (2007) conclude that minimizing the requirements of working capital and maximizing the possible revenues may indicate that the working capital is both balanced and optimal. In addition, if the working capital management is efficient, it may also increase the free cash flow of firms, and the growth opportunities of the firms along with the return to shareholders also are equally greater. Hence, the working capital of the firms should be kept at an optimal level and their values should be maximized (Afza & Nazir, 2007). The efficiency of working capital management is probably to generate significant results and disregard to it by any firm can be highly dangerous (Christopher & Kamalavalli, 2009).
The contents of the thesis is for internal user only
REFERENCES


APPENDICES

The sample list of 58 small and medium enterprises (SMEs) in Malaysia:

1. A.B.Ng Secretarial Services Sdn. Bhd.
13. Ban Hoe Seng Sdn Bhd
15. Ban Loong Trading Company Sdn Bhd
22. Foo Nyit Tse & Brothers Sdn Bhd
24. Guan Hoe Company Sdn Bhd
27. Inshirah Travel & Tours Sdn. Bhd.
34. Leong Hin San Sdn Bhd
42. Shayo (M) Sdn. Bhd.
43. Sin Meng Kee Products Sdn. Bhd.
44. Sin Wah Lee Motors Sdn. Bhd.
49. Syynn Heng Trading Company Sdn Bhd
52. The Ipoh Traders Company Sdn Bhd
53. The Jalan Langgar Transport Company Bhd.
56. Unique Progress Sdn. Bhd.
### Descriptive Statistics

#### Descriptive Statistics (2010 – 2014)

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### Pearson Correlation

#### Pearson Correlation (2010 – 2014)

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<tr>
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**. Correlation is significant at the 0.05 level.
*. Correlation is significant at the 0.01 level.

### Multicollinearity Analysis

#### Coefficients^a

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Regression Analysis

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*. Significant at the 0.01 level. **. Significant at the 0.05 level.