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**THE IMPACT OF WORKING CAPITAL MANAGEMENT ON  
PROFITABILITY OF LISTED TRANSPORTATION AND LOGISTICS  
COMPANIES IN MALAYSIA**



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**MASTER OF SCIENCE (FINANCE)**

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**THE IMPACT OF WORKING CAPITAL MANAGEMENT ON  
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COMPANIES IN MALAYSIA**



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**Pusat Pengajian Ekonomi,  
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## ABSTRACT

This study examines the impacts of working capital management on profitability of 31 listed transportation and logistics companies in Malaysia from year 2014 to 2018. Sample from same timeframe and industry in Singapore has collected and examined for the purpose of comparative analysis and better understanding on how working capital management functioned within transportation and logistics industry. This study has applied Random Effects GLS regression to investigate the relationship between the working capital management and profitability of firms. In this case, the firms profitability is measured by Return of Equity (ROE) ratio. The profitability of firms is investigated through account receivables management, inventory management, account payables management and cash conversion cycle. Fixed financial assets and financial debts also applied to examine their effects on profitability of firms. The result of this study shows that working capital components are negatively related with the profitability of firms. Fixed financial assets and financial debts are not significant, hence concluded that they have no influences on the profitability of firms. The results indicate short duration of account receivables turnover, inventories turnover and account payables turnover can bring higher profitability to firms. By examining the working capital management of transportation and logistics companies, readers could understand the relationship of liquidity and profitability in this industry. This study also suggests not to forget the shifting patterns of transportation and logistics industry which may directly affect the profitability of the industry.

Keywords: working capital, cash conversion cycle, profitability, transportation and logistics companies, Malaysia

## ABSTRAK

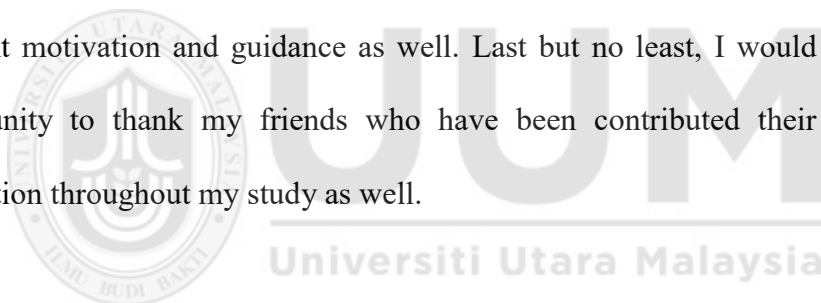
Kajian ini mengkaji kesan pengurusan modal kerja ke atas keuntungan syarikat pengangkutan dan logistik yang disenaraikan di Bursa Malaysia dari tahun 2014 hingga 2018. Sampel yang tahun kajian dan industri yang sama dari Singapore telah dikumpul dan dikaji untuk tujuan perbandingan dan lebih kefahaman. Teknik Random Effects GLS regression telah digunakan untuk menganggarkan hubungan antara pengurusan modal kerja dan keuntungan syarikat. Dengan itu, keuntungan syarikat adalah dikirakan dengan nisbah pengulangan atas ekuiti syarikat tersebut. Keuntungan syarikat tersebut adalah dipengaruhi oleh pengurusan akaun belum terima, pengurusan inventori, pengurusan akaun perlu dibayar dan kitaran penukaran tunai. Selain itu, kajian ini juga menggunakan asset kewangan tetap dan hutang kewangan untuk mengkaji kesannya ke atas keuntungan syarikat. Keputusan analisis menunjukkan asset kewangan tetap dan hutang kewangan tidak mempengaruhi keuntungan syarikat-syarikat tersebut. Malah, hasil kajian ini menunjukkan bahawa terdapat hubungan yang negatif di antara komponen modal kerja dengan keuntungan syarikat pengangkutan dan logistik di Malaysia. Hal ini menunjukkan hari akaun belum terima, hari pusing ganti inventori dan hari pusing ganti akaun perlu dibayar yang pendek boleh meningkatkan keuntungan syarikat Malaysia. Dengan pemahaman yang jelas ke atas pengurusan modal kerja, pembaca dapat mengetahui hubungan antara kecairan dan keuntungan industri ini. Kajian ini juga mencadangkan bahawa corak pengalihan industri pengangkutan dan logistik boleh mempengaruhi keuntungan industri tersebut.

Perkataan Penting: modal kerja, kitaran penukaran tunai, keuntungan, syarikat pengangkutan dan logistik, Malaysia.

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## CHAPTER 1

### 1.0 INTRODUCTION

#### 1.1 Background of Study

Corporate finance is a wide area of finance which studies the capital structure, capital budgeting and working capital management of corporation. The functions of capital structure and capital budgeting are to study the investment, financing and gains of corporation within a long period of time. And working capital management aims to study how firms' managerial accounting implement and monitor their current assets and current liabilities in daily operation.

Working capital management is a wide area besides capital structure and capital budgeting that is highly related to the profitability of firms. It is often revised and revisited by academicians to obtain the latest information on corporate financial management. According to the study of Deloof (2003), the ways on managing working capital is expected to lead various impacts towards the profitability of firms. Hence, management of working capital is crucial to be one of the necessary criteria of firm's financial management.

The objective of working capital management is to examine the cash flow sufficiency of firms in order to cover their debt obligation and operating costs in short term. Hence, to manage working capital of firms, it is very much related on how firms manage their liquidity during business operation and earn profitability eventually. The importance of cash is well recognized on how it functions as a liquidity within firms. However, working capital management has few components such as account receivables management, inventory management, account payables management and cash conversion cycle.

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