ABSTRACT

Working capital management is part of the financial considerations that a finance manager needs to determine and plays an important role in determining the profitability of the firms. In view of its importance, this study aims to investigate on the effect of working capital management components and working capital management policy towards profitability of firms in services and manufacturing sector in Malaysia for five years period from 2006 to 2010, which also coincides with the implementation of the Ninth Malaysia Plan and Third Industrial Master Plan. Further, the objective of this study is to examine whether there is any significant difference in profitability between firms in services and manufacturing sector during the period of 2006 to 2010.

Panel data regression analysis using fixed effects estimation has been applied in this study based on secondary data collected from a sample of 75 trading/services firms and 143 industrial products firms listed in the Main Market of Bursa Malaysia for the period of 2006 to 2010, which represents services and manufacturing sector respectively.

The results of the study revealed that there is a significant negative relationship found on the number of days accounts receivable (ARD) and cash conversion cycle (CCC) with the profitability of firms in services sector, measured by gross operating profit (GOP). Meanwhile, a significant positive relationship is established between number of days inventories (INV) and profitability of the firms in services sector. In addition, the services firms are found to adopt an aggressive working capital investment policy (WCIP), which
resulted in an increase in profitability. Meanwhile, there is no significant relationship found between working capital financing policy (WCFP) and profitability of the firms. Overall, the results indicate that the profitability of the firms in services sector can be enhanced by reducing the ARD and CCC, as well as increasing the INV level.

For manufacturing firms, it is revealed that there is a significant negative relationship found between number of days accounts receivable (ARD) and gross operating profit (GOP) of the firms, which means that the profitability of the firms can be improved by reducing the ARD. The rest of the working capital management components such as number of days inventories (INV), number of days accounts payable (AP) and cash conversion cycle (CCC) do not indicate a significant relationship with the gross operating profit (GOP) of the firms. The manufacturing firms are found to adopt a conservative working capital investment policy (WCIP) that resulted in an increase in profitability, which is evidenced by the significant positive relationship reported between WCIP and GOP during the period of 2006 to 2010. However, it is also found that manufacturing firms adopts an aggressive working capital financing policy (WCFP) that decreases the profitability of the firms in view that there is a significant negative relationship found between WCFP and GOP of the firms.

Finally, based on the study conducted, it is also revealed that there is a significant difference between the mean profitability of services and manufacturing firms in Malaysia during year 2006 to 2010.
ACKNOWLEDGMENTS

First and foremost, I would like to express my deepest appreciation to my research project supervisor, Dr Mohamed Shikh Abubaker Al-Baity for his invaluable time, patience, ideas, supervision and motivation for me to complete this project paper. His consistent guidance and patience throughout the research period is highly appreciated in leading the success of completing this study.

I would also take this opportunity to express my heartfelt gratitude to my beloved mother, Madam Khong Sow Chun and my sisters, Eileen Sim Siew Wah and Winnie Sim Siew Li for their constant words of encouragement, support and motivation for me to complete this study.

Last but not least, I would like to express my appreciation to all my lecturers, MBA friends, staff of GSB office, library staff and colleagues that had assisted me in one way or another in completing this MBA research project.
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<tr>
<td>AP</td>
<td>Number of days Accounts Payable</td>
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<td>ARD</td>
<td>Number of days Accounts Receivable</td>
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<td>BNM</td>
<td>Bank Negara Malaysia</td>
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<td>DEBT</td>
<td>Debt ratio</td>
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<td>E&amp;E</td>
<td>Electronics and electrical</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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