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## **Working capital management and its effect on profitability: Empirical evidence from Malaysian capital market**

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### **Abstract**

This study examines the effect of working capital management on profitability among 803 companies listed on Bursa Malaysia. The data collected from DataStream for the year 2010 to 2014 was analyzed using panel data analysis. It was found that number of sales inventory days and number of account receivable days determine profitability of Malaysian public listed companies. Additionally, the debt to equity ratio, current ratio and firm size also has significant effects on the firm's profitability.

**Keywords:** Working capital management, Performance, ROA, Tobin Q

### **1. Introduction**

Working capital refers to the amount of capital that is promptly accessible to the company. The way firms manage its working capital will give impact on their liquidity and profitability. In fact, many companies have invested large amounts of resources in the account receivable and inventory, besides regularly depended on short term payables as a source of refinancing the company operations (Deloof, 2003). In addition to that, large size inventory and the facilities of trade credit policy may lead to high volume of sales. Sufficient inventories may reduce the risk of a stock-out; and by allowing the customers to enjoy product before paying for it also can attract them to buy from the company.