

Working Capital Management in Malaysia: A Review of Practices Across Sectors

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Abstract: *Working Capital Management (WCM) plays a vital role in ensuring corporate liquidity, operational efficiency, and profitability. Despite its importance, research on WCM in Malaysia remains limited and primarily focused on listed companies and SMEs, with minimal emphasis on industry-specific practices. This study conducts a comprehensive review of journal articles published between 2015 and 2024 to examine WCM practices across various Malaysian sectors. The findings highlight that most research samples are drawn from the manufacturing sector, with less representation from other critical sectors. Key components such as inventory turnover, accounts receivable, and accounts payable are frequently used to assess WCM efficiency, often through the cash conversion cycle. Most studies report a significant positive relationship between WCM and firm profitability, although findings vary based on sector and performance indicators. Future studies should expand beyond SMEs and listed firms to explore WCM dynamics in underrepresented sectors.*

Keywords: Working Capital Management, Cash Conversion Cycle, Sectors, Profitability

1. Introduction

Working capital management (WCM) is a critical component of corporate finance that directly influences a company's liquidity, operational efficiency, and profitability (Deloof, 2003; Lazaridis & Tryfonidis, 2006). WCM involves managing a firm's short-term assets and liabilities, ensuring that sufficient cash is available to meet day-to-day operational needs while minimizing the cost of capital. We cannot overstate the significance of effective WCM in Malaysia, a rapidly developing economy with a diverse range of sectors. Effective working capital practices are essential for businesses to withstand economic fluctuations, manage risks, and optimize financial performance (Ng et al., 2017; Ali & Sim, 2020).

The business environment in Malaysia is complex, with various sectors, each presenting unique challenges and opportunities for WCM. In the manufacturing industries, effective management of inventory and accounts payable is essential for maintaining smooth cash flow and avoiding production disruptions (Ng et al., 2017). In contrast, the services industries primarily rely on efficient receivables management to sustain liquidity and ensure timely revenue collection (Zariyawati et al., 2016). Small and medium-sized enterprises (SMEs), which make up a substantial portion of the Malaysian economy, face hurdles in managing working capital, often struggling with limited access to financing and delayed payments, which can constrain growth and operational efficiency (Hashim & Wafa, 2002).

Despite its significance, sectors in Malaysia have not extensively studied WCM practice (Wasiuzzaman & Arumugam, 2013; Ng et al., 2017). Understanding the specific practices, strategies, and challenges businesses face in different sectors could be beneficial for both practitioners and policymakers. This review aims to fill that gap by examining the WCM across various sectors in Malaysia, exploring the best practices adopted, and the challenges encountered to enhance liquidity and financial stability. This study provides valuable insights into how businesses in Malaysia can improve their working capital efficiency to support sustainable growth and long-term success. In addition, the outcomes of this research may provide directions for future research opportunities.

2. Literature Review

WCM refers to the management of short-term assets and liabilities by companies to ensure the operational efficiency of a business. Effective WCM ensures sufficient liquidity for day-to-day operations while minimizing costs. It is a fundamental aspect of corporate financial management that can directly affect business liquidity, operational efficiency, and short-term financial health (Zariyawati et al., 2009). Traditionally, WCM has been viewed as balancing between risk and return. It is important to maintain the optimal level of working capital for a business.

Key components in measuring the efficiency of WCM using indicators such as the current ratio, quick ratio, working capital turnover, and especially the cash conversion cycle (CCC). Key elements for CCC are inventory, accounts receivable, and accounts payable for turnover (Deloof, 2003). Most of the studies done by previous researchers used those components in their studies to evaluate WCM efficiency.

Empirical evidence from global researchers suggests a strong relationship between WCM and firm performance (Deloof, 2003; Lazaridis & Tryfonidis, 2006; Padachi, 2006). In Malaysia, WCM has garnered increasing attention due to its impact on SME sustainability and corporate profitability. Studies by Mohamad and Saad (2010) indicate that Malaysian firms, particularly SMEs, often face challenges in balancing liquidity and profitability. Efficient management of receivables and inventory remains a critical issue across sectors, especially in manufacturing and retail industries. Research by Hameer et al. (2021) reveals sectoral differences in WCM efficiency. Manufacturing firms tend to maintain higher inventory levels, while service-oriented businesses prioritize receivables turnover. Publicly listed companies are more likely to adopt formal WCM strategies, while SMEs often rely on informal practices.

Agency theory addresses the relationship that exists between business owners (principals) and managers (agents). According to Jensen and Meckling (1976), the challenges arise when company owners delegate decision-making to managers. Managers might not always prioritize shareholder interests, especially when their personal goals differ. These conditions can lead to inefficient WCM, such as holding too much cash or giving customers too much time to pay.

3. Research Methods

To explore the practices of WCM across different sectors in Malaysia, this study conducts a comprehensive literature review. The goal is to thoroughly understand the best practices, challenges, and strategies Malaysian companies employ in managing their working capital. The following research questions have been developed to direct the focus of this study:

- i. What are the common sectors chosen in the previous study for WCM in Malaysia?
- ii. What are the common financial performance indicators used by Malaysian firms to assess the effectiveness of their WCM?
- iii. What are the key WCM practices adopted by firms across various sectors in Malaysia, and the impacts on the financial performance and profitability?

The articles were extracted using a search engine, and only journal articles were considered. The articles reviewed were published between the years 2015 and 2024, which were selected within the last ten years. The key terms related to this study were used to identify the related articles on the subject of this paper. The final sample of 15 articles that met the purpose of this study was selected.

4. Results and Discussion

This study reviewed and compiled articles published in academic journals based on previous related literature and seeks to examine the effects resulting from good practices of WCM on business performance. This study focuses on the findings from other researchers to provide guidance and good practices for companies across various sectors in Malaysia.

Table 1: Sample Selection

Author(s) (year)	Sample
Shan et al. (2015)	80 companies from the property industry and 124 companies from the wholesale & retail industry between 2002 to 2011.
Safiah & Nizam (2015)	50 companies in plantation & petroleum sectors covered the period of 2010 – 2014.
Kasiran et al. (2016)	24 SMEs companies for period from 2010 - 2013.
H. S. Lee et al. (2016)	Between 2002 and 2011, data from 80 firms in the property industry and 124 firms in the wholesale & retail industry.
Gorondutse et al. (2017)	66 SMEs company is selected from the period between 2006 and 2012.
Ng et al. (2017)	Between 2007 and 2012, 122 manufacturing companies from the industrial products industry.
Jakpar et al. (2017)	164 manufacturing companies over the period from 2007 to 2011.
Yunos et al. (2018)	From 2010 to 2014, 803 listed companies from various industries were chosen.
Nai-Chiek & Peck-Ling (2019)	40 construction companies for the period of 2012 to 2016.
Al-Mawshaki et al. (2019)	Data from 143 manufacturing firms between 2010 and 2016.
Tahir & Ashhari (2020)	321 manufacturing and services SMEs from 2010 to 2013.
Ali & Sim (2020)	156 companies in the industrial products sector from 2007 through 2016.
Hameer et al. (2021)	40 listed manufacturing firms (Bumiputera and Non-Bumiputera) from 2009 until 2018.
Yin et al. (2021)	30 construction firms from 2015 to 2019.
Amram et al. (2023)	399 completed questionnaires on SMEs Family Business located in the northern and eastern regions of Peninsular Malaysia, specifically in the states of Perlis, Kedah, Kelantan, and Terengganu.

Table 2: Performance Indicators and Impacts on the Company

Author(s) (year)	Findings
Safiah & Nizam (2015)	Inventory days, payable days, and current ratio have an insignificant relationship with Return on Assets. The working capital turnover ratio and receivable days are significantly correlated.
Shan et al. (2015)	The ratios of current assets to total assets exhibit a significant positive relationship, while the current liabilities to total assets ratio shows mixed results.
Kasiran et al. (2016)	Based on the efficiency index (using the performance index and utilization index instead of using the ratio), it was discovered that SME companies managed their working capital less effectively.
H. S. Lee et al. (2016)	The firm size and current assets to total assets ratio significantly and positively influence the firm's performance.
Ng et al. (2017)	The cash conversion cycle has a positive relationship with gross operating income, while the inventory conversion period is positively linked to profitability.
Gorondutse et al. (2017)	Account receivables days, stock turnover days, and cash conversion cycle negatively affect both Return on Assets and Return on Equity. The cash conversion cycle exhibits a positive relationship with net operating profit. Account payable days positively affect the Return on Asset and Return on Equity, while it negatively affects the net operating profit.
Jakpar et al. (2017)	The inventory conversion period, average collection period, and firm size are significantly and positively associated with a firm's profitability. Debt ratio (leverage) and a firm's profitability show a significant negative relationship.
Yunos et al. (2018)	A significant negative relationship exists between sales inventory days and account receivable days with Return on Assets. Account payable days and the cash conversion cycle do not have a significant impact on Return on Assets.
Nai-Chiek & Peck-Ling (2019)	A shorter collection period significantly and positively impacts firm financial performance. The operating cash flow and share price are not substantially impacted by WCM.
Al-Mawsheki et al. (2019)	The current assets to total assets ratio significantly positively influence the firm's performance. Current liabilities to total assets ratio show no significant effect.
Tahir & Ashhari (2020)	Profitability, debt ratio, firm size, and industry types showed significant associations with WCM.
Ali & Sim (2020)	Firm performance is not significantly impacted by the cash conversion cycle, and the findings indicate a non-linear relationship between WCM and firm performance.
Hameer et al. (2021)	Inventory days and account receivable days are significantly and negatively correlated. Account payable days have no significant effect for both types of manufacturing firms, but there is a negative relationship with Bumiputera firm performance and a positive association with non-Bumiputera firm performance.
Yin et al. (2021)	There is a significant positive correlation between days inventory outstanding and gross operating profit, while days payable outstanding shows a significant negative relationship with gross operating profit.
Amram et al. (2023)	WCM shows a significant association with the performance of SME family businesses. The effect size on performance among Malaysian SMEs is moderate.

Table 1 and Table 2 show sample articles selected to analyse the WCM practice from various sectors in Malaysia. Additionally, the articles are selected based on the period covered in this

study, from 2015 to 2024, which covers a 10-year period. Not many researchers in Malaysia have done research on WCM. However, in 2024, the articles found in search engines are excluded due to not meet the objectives of the article.

Referring to Table 1, most of the studies done by the researchers were using manufacturing sectors (5 articles) as their sample rather than other sectors. This is supported by studies done by Zariyawati et al. (2016) that the Malaysian economy is significantly influenced by the services and manufacturing sectors, which contribute the largest shares to the country's GDP. Because of this factor, manufacturing sectors are mostly selected as the sample. Then, it is followed by the wholesale and retail industry (2 articles) and construction (2 articles). Whereas, followed by plantation & petroleum and industrial products with 1 article each. There is no research done yet in other sectors. Other studies use SMEs or listed companies and are not focused on specific sectors in their studies.

Results in Table 2 show that most researchers use cash conversion cycle elements such as inventory, accounts receivable, and accounts payable to measure the WCM efficiency (Amram et al., 2023; Hameer et al., 2021; Gorondutse et al., 2017; Jakpar et al., 2017; Yunos et al., 2018; Nai-Chiek & Peck-Ling, 2019; Ng et al., 2017; Ali & Sim, 2020; Yin et al., 2021). Not many researchers use ratios to represent the WCM in their studies (Al-Mawsheki et al., 2019; H. S. Lee et al., 2016; Tahir & Ashhari, 2020; Safiah & Nizam, 2015; Shan et al., 2015). Only the study done by Kasiran et al. (2016) uses the efficiency index to measure the WCM. Previous studies' findings show a significant and positive relationship between WCM elements and profitability (Amram et al., 2023; Gorondutse et al., 2017; Jakpar et al., 2017; Nai-Chiek & Peck-Ling, 2019; Ng et al., 2017). Some of the researchers have mixed findings because of different sample selection and control variables included in the studies. Most of the findings support the concept of WCM and profitability.

5. Conclusion

In conclusion, a deeper understanding of WCM practices, especially across diverse sectors, is vital for enhancing financial decision-making and supporting sustained growth within the Malaysian economy as guidelines for other sectors. It is supported by the earlier research done by various researchers on the impact of WCM on a company's profitability. It was concluded that efficient WCM is very crucial and can help the company to boost its performance. Companies need to understand the importance of WCM. Most of the studies done show a significant positive relationship between WCM and profitability. Good practices that can be followed by companies in managing the working capital are shorter inventory turnover, which can minimise the holding costs. For account receivables turnover, shorter collection periods can improve the cash inflow and reduce the credit risk. Whereas, by delaying the account payables turnover, the company can free up cash for other business operations, as long as it does not impact the relationship with the suppliers.

Several limitations of this study should be acknowledged. One key limitation is the limited scope of existing research on WCM, particularly within the Malaysian context. Most prior studies have primarily focused on listed firms and SMEs, leaving a significant gap in understanding WCM practices across other sectors. Future research could address this gap by exploring WCM in a broader range of sectors or industries, such as agriculture, healthcare, tourism, technology-based enterprises, and others, which are also vital to Malaysia's economy. Additionally, researchers may consider other samples than publicly listed and SMEs to obtain a more comprehensive view of WCM practices and challenges.

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