

**Relationship Between Management of Working Asset and Firm
Profitableness: (Case of Digi Telecom Berhad Malaysia)**

Mohamed Ali Abdinur

Ataturk University, Erzurum, Turkey
liibaan09@yahoo.com

Turan ÖNDEŞ

Ataturk University, Erzurum, Turkey
tondes@atauni.edu.tr

Abstract

The purpose of this study is to understand the association of proper management of working capital and profitableness of Digi telecom Berhad Malaysia during the period of 2015 until 2019. The methodology used is quantitative method statistics. In this paper, secondary data were used in a form of ratio analysis which is obtained from the financial reports of the past five years of Digi telecom. To investigate the strength and weakness of the correlation among working asset management and profitableness of the company correlation analysis, regression analysis and descriptive statistics were used. The findings indicate there is a solid negative correlation among return on asset to current ratio, quick ratio and day's payable outstanding whereas there is moderate and weak negative relationship between return on asset to debtors turnover ratio and inventory turnover ratio respectively. It is important for managers of Digi telecom to create and improve the shareholders wealth and value by improving the company's working capital ratio and reduce the days collection period and days payable outstanding.

Keywords: Working capital management, firm profitability, business performance

INTRODUCTION

Digi Telecom Berhad is one of the biggest and leading Malaysian telecommunication companies. 49% of Digi's share belongs to Norwegian Company known as Telenor ASA. On May 24, 1995 Digi became the primary telecom company in Malaysia to set up and work a completely advanced cellular network. Managing a working asset is a corporate policy that is intended to guarantee that the company functions efficiently and effectively by using its short term asset and short term liability. The basic purpose of managing working capital is to guarantee that the company has adequate funds to pay its expenses and debts when needed. One of the primary financial duties of any institution is to maintain an adequate amount of liquidity to ensure that it fulfills its commitment on time. One of the main requirements to achieve this goal is to maintain an adequate amount of good current assets, especially accounts receivable and to control and monitor credit accounts and to ensure that there is an appropriate difference between them and current assets within the limit that guarantees not exposure.

Problem Statement

How does the management of working asset influence the profitability of Digi Telecom Berhad?

Purposes:

Examine the correlation among working asset management and the profitability of Digi Telecom Berhad

Working asset/capital

Working capital is required for the daily and routine tasks and operations of a company. Management efficiency of working asset is important to warrant a company does not have any liquidity problems that will affect the operations of a company. Inside at the same time, working capital management efficiency also means company has been successful in running his business without huge amount resources tied to short term assets. (Aguenaou et al., 2015)

Short term assets and liabilities are key to regular and daily business operations. Most management time is focused on working capital management such as:

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- (a) Control cash inflows and outflows;
- (b) Provide credit facilities for customers; and
- (c) Always ensure adequate stock.

Important working asset management ratios:

- Liquidity Ratio
- Stock turnover ratio
- Debtors Turnover Ratio

Liquidity Ratio

Liquidity ratio explain the ability of a business to meet its current or short-term obligations when fall due. A business with liquidity problems may not be able to continue its business and may be forced into liquidation. (Bibi & Amjad, 2017) The two commonly used ratios in measuring the liquidity of business are current ratio and quick ratio.

This ratio measures the margin of safety to the creditors. It indicates how many times current liabilities are being covered by current assets.

The higher the ratio, the more liquid is the business. However, if the ratio is too high, it may suggest that the capital is employed or used inefficiently by the business where, for instance, the business has excessive stock or debtors. (Rehman & Anjum, 2013)

Quick/acid ratio provides a better measure of liquidity where item, which are considered to be least liquid, are taken out from the current assets. It is argued that these least liquid assets are not readily convertible into cash. Least liquid assets include stock and prepaid assets. (Iqbal et al., 2014)

Similar to current ratio, the higher the ratio, the more liquid is the business. A rule of thumb of 1: 1 is considered sufficient in ensuring a favorable situation in meeting the business short-term obligation. (Vieira, 2010)

Debtors Turnover Ratio

The risk normally associated with credit sales is the possibility that debtors may not pay the amount owed. It is very important for a business to consider the effectiveness of its credit control and collection policies. This ratio measures how efficient is the business in collecting the amount owed by

debtors by looking at the length of times a debtors takes to pay the business or how many times the average debtors balance is converted into cash . (Korent & Orsag, 2018)

Debtor's turnover ratio of 12 times indicates that on average, cash is collected every month. The higher the ratio, the shorter is the time taken by the business to collect its credit sales.

A collection period of 20 days means that a business took on average 20 days to collect its credit sales. If the credit term given to a customer is 30 days, a collection period of 20 days indicates the effectiveness of its collection policies.

(Saleem & Rehman, 2011)

Days Payable outstanding

This ratio shows how long (days) it takes the company to pay off its debts. This ratio helps the company to keep track of the transparency and quality of the loan. (Leon, 2013)

A higher creditor turnover ratio indicates it take a company a long time to pay off its debts, this can weaken a company's credit worth. On the other hand it means the longer a company takes to pay its bills it may use the funds for other projects to generate more profit. (Akgün & Şamiloğlu, 2016)

Stock Turnover Ratio

In a trading business, stock or inventory is always considered a risky asset considering its effect on profit figure. This ratio measures how efficient stock is being managed by business.

A ratio of 3 times means that in one accounting period on average stock is being replaced 3 times. Generally, the higher the ratio the better because it shows that the business is able to sell its goods regularly and new stock are purchased to replace the goods sold. A low ratio indicates that the stock is slow moving. The stock may include obsolete stock, non-selling items or excessive stock. (Konak & Güner, 2016)

A stock turnover ratio of 30 days means that stock is being held for an average of 30 days before being replaced or sold. Here, the lower the number of days the stock is being held in the business the better. (Baghiyan, 2013)

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Literature review

Aya et al (2016) studied the effect on management of working assets has on the performance of Nestle food in Nigeria. Results showed there is a positive correlation between liquidity ratio such as current and quick ratio and return on asset.

(Agha, 2014) studied the impact of working asset on profitableness and found out there is positive association among cash conversion and profit of the company. It implies that the increase in CCC will surge the company's productivity, while directors are able to make a optimistic worth for the stockholders by expanding cash conversion cycle to sensible level.

(Bibi & Amjad, 2017) investigated the impact of the firm's liquidity on the profitableness; and the impacts of unique components of liquidity on firms' productivity. The results showed a negative association among cash and return on asset whereas current ratio has significant positive relationship with profitability.

(Huynh & Jyh-tay, 2010) explored the correlation among cash conversion, and profitableness fir Vietnam stock market listed companies. The study found out there are strong negative correlation among cash conversion and profitableness of the firms. This means the productivity of a firm will decline when cash conversion cycle increments.

(Phuong & Hung, 2020) investigated the influence of management of working capital on the profitableness of Vietnam's firms. The paper found out stock turnover ratio, debtor's turnover ratio, creditor turnover ratio, and cash conversion cycle had negative impacts on the firm profitability.

The proper and efficient management of a working assets has many benefits that contribute to the growth of a company. This includes an increase in the company's profits. It is also important for the company's resource management. Management of the company's operating assets includes inventory, receivables and payables. (Saufi, 2018). The goal of working asset is to ensure that the company is able to pay its debts and expenses and has sufficient funds to repay when needed.. (Kamau & Ayuo, 2014)

Management of working asset usually includes monitoring cash flow, short term asset and short term liabilities by analyzing the ratios of the main

components such as liquidity ratio, debtors turnover ratio, Payment ratio and stock turnover ratio .(Arachchi et al., 2018)

Managing working asset of a company is one of the things that helps a company easily convert their current asset and current liability into cash. (Ganesan & Nirmal Dev, 2019)

Most of the researchers cited in this paper focused on the impact of working capital management on the performance by focusing on specific variable such as cash conversion cycle. However this paper is more broad and aiming at understating the proper management of working capital by taking into consideration all of working capital management variable in general.

Hypothesis testing:

H01: The correlation among liquidity and profitableness of Digi telecom Berhad is negative

H11: The correlation among liquidity and profitableness of Digi telecom Berhad is positive

Hypothesis 2

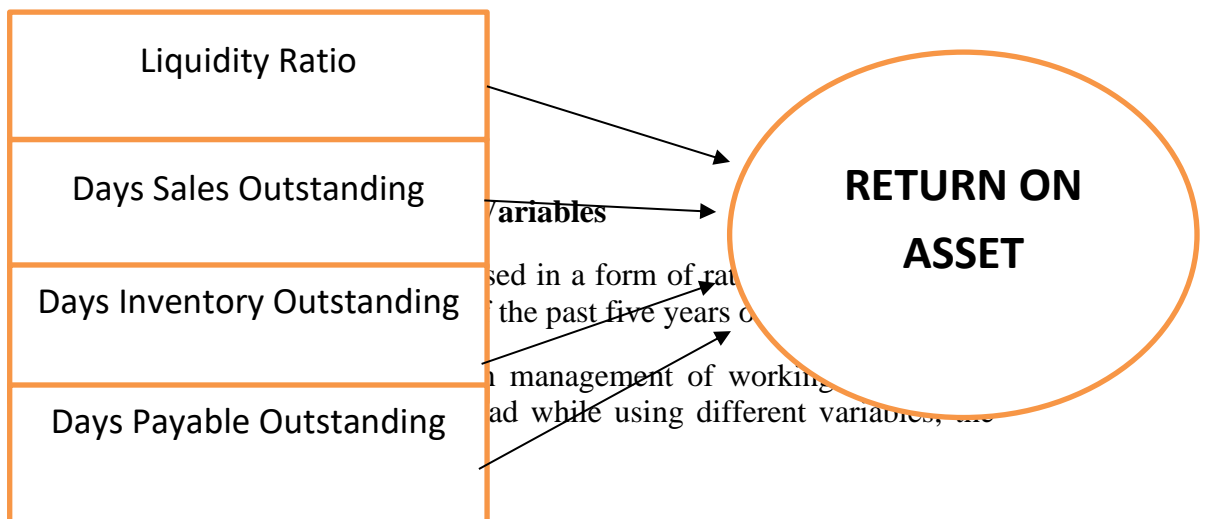
H02: The correlation among efficiency and profitableness of Digi telecom Berhad is negative

H12: The correlation among efficiency and profitableness of Digi telecom Berhad is negative

THEORATICAL FRAMEWORK

Independent Variable

Dependent Variable



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company's last 5 year financial reports (2015-2019) were collected from Bursa Malaysia and the firm's website.

Dependent and independent variables

Return on asset which is the dependent variable and independent variables which are current ratio or working ratio, debtor turnover ratio, stock turnover ratio and creditor's turnover ratio are used in this research.

Model:

Correlation and regression quantify the direction and the strength of the relationship between two or more numeric variables. The main aim of this research is to examine the relationship between profitability and working capital management thus correlation analysis were conducted to provide a more concise summary of the relationship between dependent and independent variables.

Furthermore regression analysis were used in this research to understand the relationship between working capital management and profitability of Digi telecom Berhad.

ANALAYISIS AND RESULTS

Descriptive statistics

Table 1 shows the descriptive statistics such as mean, standard deviation, minimum and maximum values of all variables in this study.

The mean of the return on asset (ROA) is 27% with standards deviation of 7.36%. The mean of days sales outstanding is 73 days which means it take 73 days for Digi telecom to collect credits from its customer. On the other hand Digi Telecom has a mean value of 445 on its day's payable outstanding with a minimum of 369 days. This means on average it takes them to pay their debtor in 445 days. Digi enjoys a better day's inventory outstanding with a minimum of 11 days. The mean of DIO is 16 meaning it takes 16 days to sell the inventory. Furthermore the mean of current ratio and quick ratio are 0.68 and 0.65 respectively. This shows on average that Digi telecom do not maintain enough current asset in meeting current obligations.

Descriptive Statistics

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	N	Minimum	Maximum	Mean	Std. Deviation
ROA	5	.18	.37	.2700	.07036
QR	5	.35	.80	.6560	.18064
DSO	5	49.00	94.00	73.2000	16.66433
CR	5	.38	.83	.6840	.17953
DIO	5	11.00	23.00	16.6000	5.12835
DPO	5	369.00	507.00	445.6000	50.60435
Valid N (listwise)	5				

Correlation

Pearson's correlation table shows the strength and weakness of the relationship between Return on assets compared to Current ratio, Quick ratio, debtor turnover ratio, stock turnover ratio and creditor's turnover ratio. The tables demonstrates that there is strong negative connection among return on assets to liquidity ratios such as current and quick ratio and creditors turnover ratio. It also demonstrates there is moderate negative relationship on return on asset to day's sales outstanding, where as there is a weak negative association among return on asset and days inventory outstanding.

Correlations

		Current_Ratio	Quick_Ratio	DSO	DIO	DPO	ROA
Current_Ratio	Pearson Correlation	1	1.000**	.781	-.674	.851	-.627
	Sig. (2-tailed)		.000	.119	.212	.067	.257
	N	5	5	5	5	5	5
Quick_Ratio	Pearson Correlation	1.000**	1	.793	-.685	.843	-.618
	Sig. (2-tailed)	.000		.109	.202	.073	.267
	N	5	5	5	5	5	5

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DSO	Pearson Correlation	.781	.793	1	-.736	.608	-.365
	Sig. (2-tailed)	.119	.109		.156	.276	.546
	N	5	5	5	5	5	5
DIO	Pearson Correlation	-.674	-.685	-.736	1	-.407	-.139
	Sig. (2-tailed)	.212	.202	.156		.496	.824
	N	5	5	5	5	5	5
DPO	Pearson Correlation	.851	.843	.608	-.407	1	-.731
	Sig. (2-tailed)	.067	.073	.276	.496		.161
	N	5	5	5	5	5	5
ROA	Pearson Correlation	-.627	-.618	-.365	-.139	-.731	1
	Sig. (2-tailed)	.257	.267	.546	.824	.161	
	N	5	5	5	5	5	5

** . Correlation is significant at the 0.01 level (2-tailed).

Regression analysis

Model summary show that $R^2 = .55$ taken as a set, the independent variable of current ratio and quick ratio account for 55% of the variance in Return on asset

Model Summary

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	.743 ^a	.552	.104		.06658

a. Predictors: (Constant), QR, CR

Anova shows that the overall regression model was not significant, $F(2, 2) = 1.23$, $p > .005$, $R^2 = .55$

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.011	2	.005	1.233	.448 ^b
	Residual	.009	2	.004		
	Total	.020	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), QR, CR

Below table indicates that current ratio has P value of .475 and quick ratio has P value of .489 which means both current ratio and quick ratio has no significance as the amount of unique variance a predictor accounts for is statistically not significant.

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B		
	B	Std. Error	Beta			Lower Bound	Upper Bound	
1	(Constant)	64.470	27.786		2.320	.146	-55.085	184.025
	CR	-673.090	770.917		-.873	.475	-3990.079	2643.899
	QR	644.700	766.177		.841	.489	-2651.895	3941.296

a. Dependent Variable: ROA

Hypothesis 2

H₀₂: There is a positive relationship between efficiency and profitability of Digi telecom Berhad

H₁₂: There is no positive relationship between efficiency and profitability of Digi telecom Berhad

The model summary table that $R^2 = .85$ taken as a set, the independent variable of days payable outstanding ratio, days inventory outstanding ratio and days payable outstanding ratio account for 85% of the variance in Return on asset

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	.923 ^a	.852	.408		5.41334

a. Predictors: (Constant), DPO, DIO, DSO

Anova table demonstrates that the overall regression model was not significant, $F(3, 1) = 1.91$, $p > .005$, $R^2 = .85$

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	168.696	3	56.232	1.919	.477 ^b
	Residual	29.304	1	29.304		
	Total	198.000	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), DPO, DIO, DSO

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Coefficient table shows that days sales outstanding has P Value of .579, days inventory outstanding has P value of .386, and days payable outstanding has a P value of .364. This mean that there is no significance as the amount of unique variance a predictor accounts for is statistically not significant.

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1 (Constant)	108.271	34.329		3.154	.195	-327.918	544.460
DSO	-.215	.277	-.510	-.777	.579	-3.733	3.302
DIO	-1.127	.782	-.822	-1.442	.386	-11.061	8.807
DPO	-.105	.068	-.756	-1.555	.364	-.964	.754

a. Dependent Variable: ROA

Conclusion

This paper tested and examined the relationship between working capital management and profitability of Digi telecom Berhad. This study found out that there are negative relationship between the profitability (return on assets) and liquidity specifically current ratio and quick ratio of the company. In addition the relationship between return on asset to the company's debtor turnover ratio, stock turnover ratio and creditor's turnover ratio were found to be negative as well.

This paper focused on and limited to the working capital management and profitability of Digi telecom Malaysia, particularly the relationship between return on asset of the company and its current/quick ratio, debtor turnover ratio, stock turnover ratio and creditor's turnover ratio

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