THE FIRM-SPECIFIC DETERMINANTS OF CAPITAL STRUCTURE: AN ANALYSIS INTO PERFORMING CONSTRUCTION SECTOR IN MALAYSIA AND SINGAPORE

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ABSTRACT

This study aims to investigate the Firm-Specific Determinants of Capital Structure: An Analysis on Construction Sector in Malaysia and Singapore. This study used panel data from ten performing construction firms in Malaysia that listed in top10malaysia.com and ten performing construction firms in Singapore that listed in aspire.shareinv.com. The timeframe for data collection is from 2009 to 2018. The dependent variable in this study is capital structure proxy by leverage, meanwhile the independent variables in this study is firm size, profitability and asset tangibility. The finding on Malaysian construction firms indicates that all variable have positive but insignificant relationship with the leverage. Meanwhile, the findings on Singapore construction firms reveal that firm size has positive and significant relationship with leverage. The findings of the study suggest that the financing pattern of construction sector in Malaysia and Singapore are in line with pecking order theory, where profitable firm prefer to finance its operation and investment opportunity using retained earnings.

CHAPTER ONE: INTRODUCTION

1.1 Background of Study

Capital structure is a term used in corporate finance to characterize the combination of long-term debt, short-term debt, common equity and preferred equity. It's how well an organization funds its activities and its expansion by using a range of open sources of funding. Debt and equity investments also end in the firm's own capital structure. Sub-optimal funding choices, in the worst-case scenario, may contribute to organizational collapse. The goal of all financing decisions is to increase capital and the immediate way to measure the efficiency of any financing decisions is to analyze the effect of such decisions on the results of the company (Mwangi, Makau and Kosimbei, 2014). In addition, Abor (2005) concluded that funding decisions are critical because they have an effect on the firm's ability to survive in a competitive marketplace and increase shareholder value capital. According to Mardiyanto (2009), the judgment on the capital structure of a company is the determination on the funding of a long-term finance arrangement received by the debt holder or the owner's equity. The firm ought to be able to obtain funds productively from the outside of the firm, which is a circumstance in which the structure of the funding may minimize the capital costs that the firm should bear (Prabansari and Kusuma, 2005). The capital cost is the cost incurred as the consequence of the funding decision taken by the firm.

Previous studies looked at various corporation-specific factors in determining of capital structure, such as development, scale, competitiveness, asset sensitivity, non-debt tax shield, earnings volatility. The empiric reports are inconsistent and inconclusive. Many scholars argued that leverage is increasing with growth, complexity, competitiveness, asset resilience, non-debt tax shield, earnings variability (Moradi and Paulet, 2019); Coelho, 2019; Kabeer and Rafique, 2018; Singh and Janor, 2018; Flor and Petersen, 2018; M'ng, Rahman and Sannacy, 2017; Nhung, Lien and Hang, 2017; Nha, Loan and Nhung, 2016; Pratheepan and Banda, 2016; Vo, 2016; Acaravci, 2015), Nonetheless, other scholars have shown that leverage is limited by growth, scale, competitiveness, asset resilience, non-debt tax shield, earnings variability (Li and Islam, 2019; Zafar, Wongsurawat and Camino, 2019; Hamzah and Marimuthu, 2018; Ahmad, Jaafar, Muhamat, Safuan and Karim, 2018; Khemiria, and Noubbigh, 2018; Mursalim, Mallisa and Kusuma, 2017; Wagenvoort, 2016; Chipeta and Deressa, 2016; Hussain and Miras, 2015). Despite extensive research, the conclusion remains inconclusive, leaving the factors that contribute of the capital structure not properly understood, thereby indicating a need for further analyses.

Sensibly, this research explores the effect of firm-specific key drivers on the capital structure of the Malaysian and Singapore construction industries, based on the output of the top ten companies. Construction is chosen as it really plays an important role in the economic development of any region. It creates the required infrastructure for socio-economic development and eventually contributes greatly to economic growth. Malaysia and Singapore are chosen for this study since both countries share features in common such as demographic, cultural and geographical position. Therefore, companies competing in the same sector have been shown to have a homogeneous capital structure attributable to the same degree of operational risk and thus should have the same optimum capital structure (Morri and Cristanziani, 2009; Nha et al, 2016). This study therefore broadens the previous work by exploring the overall effect of the factors in determining on the capital structure of the top ten construction companies in Malaysia and Singapore.

The findings of this study that add to the body of research on the value of certain firm-specific indicators, such as firm size, productivity and asset size, in order to determine the optimum level of capital structure for firms in these countries.

1.2 Problem Statement

The judgment on capital structure is a crucial decision in corporate finance. This consists of debt and equity, with different proportions between businesses on the basis of many considerations and variables.

Previous studies of firm-specific capital structure indicators in different industries have been conducted. Rahman et al (2017) looked at the defining factor of the capital structure of public listed companies in Malaysia, Singapore and Thailand.

Hamzah et al (2018) monitored the factor in determining of the capital structure of oil and gas companies in Malaysia. Li et al (2019) examined the determinant of the capital structure of public listed companies in Australia. Kabeer et al (2018) assessed the capital structure determinant for Pakistani manufacturing firms. Hussain et al (2015) studied the differentiator of capital structure of the food industry in Malaysia. The methodological results of these studies recorded differences in capital structure determinants. Variations are due to the fact that each industry has its own characteristics or requirements that determine and influence the performance and non-performance of firms. According to Kale (2014), the generalization of the correlation between the variables between the performing and non-performing firms may lead to incorrect conclusions.

As such, to the best of the researcher's understanding, there is no analysis of firm-specific capital structure determinants based on successful construction firms in Malaysia and Singapore. In comparison, there is minimal comparative study between Malaysia and Singapore.

1.3 Research Question

Based on the research issues and gap as discussed above, the present study intends to address the follow research problem:

RQ1: Does the firm size affect the capital structure of performing top ten construction firm in Malaysia and Singapore?

RQ2; Does the profitability influence capital structure of performing top ten construction firm in Malaysia and Singapore?

RQ3: Does the asset tangibility have an impact on capital structure of performing top ten construction firms in Malaysia and Singapore?

1.4 Research Objective

The study questions alluded to above are used as a reference for the completion of the following research goal: