



**DETERMINANT IMPACT OF CAPITAL STRUCTURE ON FIRM'S  
PERFORMANCE**

NURUL AZRA BINTI ABDUL RAZAK

2015950689

BACHELOR OF BUSINESS ADMINISTRATION

WITH HONOURS (FINANCE)

FACULTY OF BUSINESS MANAGEMENT

UNIVERSITI TEKNOLOGI MARA

DECEMBER 2017

## ACKNOWLEDGEMENT

*In the name of Allah, the Beneficent, the Merciful*

It is my deepest gratitude and honor to my supervisor, Ms. Dayangku Habibah Binti Awang Kee for her guidance in making this research by providing information and useful materials not to mention with her knowledge, experience and expertise in the theory as well as the framework, I able to complete this thesis as scheduled.

I also express my sincere thanks to all my peers for the helping hand in terms of understanding and advices during my period of studies. They also always encourage me in order to keep trying my best to complete this thesis.

Last but not least, the biggest gratitude to my family for supporting me not only financially but emotionally giving a moral support, blessing, encouragement and prayed for me to keep my motivation and focus to complete massive task of completing this BBA programmed.

## TABLE OF CONTENTS

	PAGES
<b>TITLE PAGE</b>	i
<b>DECLARATION OF ORIGINAL WORK</b>	ii
<b>LETTER OF TRANSMITTAL</b>	iii
<b>ACKNOWLEDGEMENT</b>	iv
<b>TABLE OF CONTENTS</b>	v
<b>LIST OF FIGURES</b>	ix
<b>LIST OF TABLES</b>	x
<b>LIST OF ABBREVIATIONS</b>	xi
<b>ABSTRACT</b>	xii
<b>CHAPTER 1      INTRODUCTION</b>	
1.1      Background of Study	1 - 2
1.2      Problem Statement	2 - 4
1.3      Research Objectives	4
1.4      Research Questions	4
1.5      Scope of Study	5
1.6      Significance of Study	5 - 6
1.7      Limitation of Study	6
1.8      Summary	7

## **CHAPTER 2      THEORY AND LITERATURE REVIEW**

2.0	Introduction	8
2.1	Theoretical Framework	8 - 9
2.1.1	Pecking-Order Theory	8 - 9
2.1.2	Agency-Cost Theory	9
2.2	Literature Review	9 - 20
2.3	Conceptual Framework	21
2.4	Research Hypotheses	21 - 22
2.5	Summary	22

## **CHAPTER 3      DATA AND RESEARCH METHODOLOGY**

3.0	Introduction	23
3.1	Data Collection	23 - 25
3.2	Empirical Data	26
3.3	Data Analysis	26 - 31
3.3.1	Unit Root Test	27
3.3.1.1	Levin-Lin-Chu Test	27
3.3.2	Breusch Pagan LM Test	27
3.3.3	Hausman Test	28
3.3.4	Modified Wald Test	28
3.3.5	Variance Inflation Factor test	29
3.3.6	Multiple Linear Regression Analysis Test	29-30

## ABSTRACT

Capital Structure decision plays an important role in any firm's performance. Therefore, there are many studies inspecting the relationship of capital structure with performance of firm, although the finding of these studies is inconclusive. There is a relative deficiency of empirical studies which examining the link between capital structure and the performance of firms in Malaysia. Using panel data of 32 firms, this study empirically examined the impact of capital structure on the performance of firms in Malaysia assessed by return on assets for the period of 2007-2016. In this study, this independent variable which is total debt to the total asset (TDTA), long term debt to total assets (LTDTA), and short term debt to total asset (STDTA) is used as measure of capital structure where is to facilitate the comprehensive impact on return on assets (ROA) as firm performance indicators. The results imply that there is a positive impact of capital structure on firm's performance.

*Keywords: Capital Structure \* Return On Asset \*Short-term debt to Total Assets \* Long-term debt to Total Assets \* Total debt to Total Assets \* Firm Performance*