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THE RELATIONSHIP OF CAPITAL STRUCTURE TOWARDS FIRM'S PERFORMANCE: FOCUSING ON THE TECHNOLOGICAL SECTOR

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ABSTRACT

Capital structure is an important decision towards firm financing when it comes to mixing debt and equity. In addition, capital is the primary resource for the firms. A good decision about the capital can provide maximized returns that ultimately give an impact on the firm's value and overall operations and growth. Hence, risks and other factors also must be deliberated in determining a good debt or equity financing. The main objective of this study is to investigate the relationship of long-term debt (LTD), short-term debt (STD), tangibility (net fixed asset) and firm size (natural log total assets) towards firm performance which is measured by return on equity in technological sectors in Malaysia. The collection of data focuses on the period from 2012 to 2017 which is equivalent to six years. Eleven companies were selected as a sample that contributed to the 66 observations. Model Pool OLS, Random Effect and Fixed Effect were applied in order to investigate the relationship of firm performance in this industry. At the end of the study, LTD, STD and tangibility were found to be statistically insignificant while only firm size was statistically significant and had a positive relationship towards firm performance in the technological sector.

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1. Introduction

Malaysia is one of the most developed digital economies in the region and has become a key country for startups in Southeast Asia. Due to its maturing startup eco-system, Malaysia has

become the home to an ever-growing number of companies that aim at developing a solid base of operations there before expanding abroad. The startups and technology companies listed hereafter are involved in a number of industries and businesses, from digital media to e-commerce, financial services to software and much more. Moreover, Malaysia always starts by focusing more on small business niches, engaging in the development of new verticals and tackling professional problems. In Southeast Asia, Malaysia has become national, regional and global leaders in technology fields.

This situation has provided an impact towards the firm's performance especially in the technology industry. A strong government is essential to ensure that the government is able to help, provide encouragement and inject the capital to make sure the growth of company is stable and competitive. Again, in 2018, Malaysia had the 14th general election in May. Due to transition of power with the new leadership, at that time, it also had some effects towards the growth of companies especially in attracting foreign investors to invest. However, this study focuses only on the performance of the firm before the transition of new government.

Capital structure is an important decision towards the firm financing when it comes to mixing the debt and equity. In addition, capital is the primary resource for the firms. A good and great decision about the capital can provide maximised returns that ultimately give an impact on the firm's value and overall operation and growth. Hence, risks and other factors must be deliberated also in determining a good debt or equity financing since the chances of default and bankruptcy increase in times due to low business earnings (Hina Agha et al. 2015). Today, capital is vital for all businesses since they must have enough capital in order to acquire assets and maintain firm's operation. The main sources of capital structure can come from debt and also equity (Seppa, 2014).

Debt refers to borrowings made from outsiders. Hence, debt is the loan and any type of credit that must be paid back in the future including the charged periodic interest on the money tendered. The loans can be classified as the long term, short term or the credit line. Meanwhile, equity refers to gain of an ownership position in the firm such as in the form of stock. The possible sources of equity financing also include the entrepreneur's friends and family, customers, insurance companies, investment firms and others that are related to them.

Besides, the different utilisation levels of debt and equity in the firm's capital structure is one specific strategy used by managers in the search for improved performance (Gleason et al., 2000). Later, most firms have strived to attain an optimal capital structure in order to minimise the cost of capital or to maximise the firm value, thereby improving its competitive advantage in the marketplace through a mixture of debt and equity financing. Hence, selecting the right type of debt is an equally important issue as opting for an appropriate debt to equity ratio.

Moreover, the effect from the decision will assist the firm's ability to deal with its competitive environment and enhance its operation. In addition, the stability of government and political situation also plays a role in accelerating contribution to the growth of this industry. In financing, capital structure is a way a firm finances its overall operation and growth by using different types of fund whether it is from debt financing or equity financing. Both types of fund contribute to an important decision on implementation towards every business organisation (Fen et al., 2012)

Hence, it is suggested that the owners of new technology based firms use a combination of personal equity and debt that is often secured by the personal assets of the entrepreneur since the investment in IT is very important to a firm. According to Fen et.al (2012), the stability of IT firm's

services and performance will influence the company's value and performance. Therefore, the technological firm should choose the right company to invest by going through their background or internal information.

Zuraidah et al. (2012) found that debt has a significant relationship effect on the firm's performance and is long term in nature. Moreover, the findings revealed that short-term debt tends to be less expensive and its relatively low-interest rate will lead to an enhanced level of profit. Thus, it has become a requirement to implement an optimal level of capital structure since the lack of it can shift the control of company to the debt-holders. The misuse of capital structure will lead to a terrible performance of the firm. Due to that, if a firm is perceived to be close to bankruptcy, customers will be less willing to buy goods and services due to the risk of the firm not being able to meet its warranty obligations. Endless evolution of technologies will keep the customers' demand going and this reveals the satisfaction of the customers. Hence, changes in decision on dealing with the best choice of capital structure be it debt or equity would affect the firm's performance and it should be parallel with the changes in technology in a country.

Due to the lack of consensus about what would meet the criteria as the best possible optimal capital structure in firm's performance, it is pertinent to examine the relationship between long term debt (LTD), short term debt (STD), tangibility and firm size towards the firm's performance in the technological industry in Malaysia.

The rest of the paper is organised as follows; the next section provides a summary review of literature, section three describes the methodology used for this study. Section four discusses the results of the findings and section five concludes the discussion.

2. Literature Review

2.1 Theoretical Literature

Under capital structure, there are some theories to describe capital structure of the firms. One of the theories is static tradeoff initiated by Modigliani and Miller's (MM) Theorem that was developed in 1958 (Adair and Adaskou, 2015). The study by Modigliani and Miller (1958) recommends that in a world without friction, there is no difference between debt and equity financing with regards to value of the firms. Hence, financing decision adds no value and therefore is of no concern to the managers. Evidence would recommend that this does not hold in reality. However, today, theory MM (1958) is no longer relevant to be implemented on overall business organisations.

On the other hand, due to evolution on the theory, Modigliani and Miller (1963) refined the theory again and suggested that in considering the existence of corporate taxes, firms should use as much debt capital as possible in order to amplify their value by maximizing the interest tax shield. Basically, this theory claimed that the interest is deductible from taxable profits. Due to this, firms prefer to use debt more compared to the equity. The theory also provides information of advantages of using debt and the disadvantages of using debt excessively (Stretcher & Johnson, 2011).

Besides, there are other theories that explain the capital structure of firms such as the pecking order theory, and the agency cost theory. The pecking order theory was introduced by Myers and Majluf (1984) where the theory suggests the firms will initially rely on internally generated funds, and then, internal funds will turn to debt if additional funds are needed and finally they will issue equity to cover any remaining insufficient fund. Moreover, in pecking order

hypothesis, the profitable firms will generate high earnings and use reduction in debt capital more than those who do not generate high earnings. Thus, internal funds are used first, and when the fund is depleted, debt is issued. However, when the debt is not sensible to issue any more debt, equity will be issued. This theory recommends making internal financing rather than external financing to minimise the costs related to asymmetric information (Adair & Adaskou, 2015).

Another important theory is agency cost which was developed by Jensen and Meckling (1976); it occurs in the principal-stakeholder relationship, such as between shareholders or managers of the firms and debt-holders. This theory shows that the interests of the company's managers and its shareholders are not perfectly related. They recommended that the managers should feel encouraged to make sure the agency costs will be lower by issuing debt since the conflict is created between the equity holders and managers. Besides, the given incentives to the firm will benefit shareholders at the expense of the debt-holders. Therefore, debt-holders are required to restrict and monitor the firm's behaviour. Hence, costly monitoring devices of contractual covenants are incorporated into debt agreements to protect the debt-holders. Thus, it should increase the cost of capital offered to the firm. Therefore, firms with relatively higher agency costs due to inherent conflicts between the firm and the debt-holders should have lower levels of outside debt financing and leverage.

According to Myers (2001), each one of the theories works under its own assumptions and propositions. Thus, none of the theories can provide an absolute picture about the practice of a great capital structure. Studies by Ross (1977), Heinkel (1982) and Noe (1988) suggested that increasing leverage, by acquiring debt should have positive implications on the firm value and performance. Moreover, Champion (1999) stated that using leverage is one way to improve the performance of the firm. The study is supported by Hadlock and James (2002) who concluded that companies prefer debt (loan) financing because they anticipate a higher return.

2.2 Empirical Literature

The capital structure under technology based firms raised larger amounts of capital than other firms especially the high-performing ones. Rapid growth firms with revenues in excess of 100 thousand dollar raised more capital than other firms since it can attract the external equity investors. The technology based firms used a significantly higher ratio of owner financing and lower ratios of insider financing as well as external debt (Coleman & Robb, 2012). They also found that the technology based firms have better result in profitability and performance. The firms are able to attract larger amounts of external debt and equity.

Based on a study by Salim and Yadav (2012), firms have different leverage level and managers must try to achieve the optimal capital structure. They used debt ratios to find the relation between firm's performance measured by return on equity (ROE) and other variables. The debts are negatively related to the performance of firms whereas a study by Fen et.al (2012) shows nonsignificant result to the firm value of firms in the technological sector.

Moreover, Salim and Yadav (2012) suggested that there is a significant negative relationship between long-term debt and the performance of firm measured by return on equity (ROE). They used a sample of 237 Malaysian companies listed on Bursa Malaysia Stock Exchange from year 1995 to 2011. In this case, any increase in long-term debt decreased return on equity. However, Vatavu (2015) found contradictory results in which long-term debts are always insignificant with the performance indicators that are measured by return on asset (ROA) and return on equity (ROE). A sample of 196 Romanian companies listed on the Bucharest Stock Exchange was used over a period of eight years, 2003 until 2010, in which the companies barely

used debt with long-term maturities. Results indicate that performance in Romanian companies was higher when they avoided debt and operated based on equity. The study by Nassar (2016) found that, long-term debt had a negative impact on the firm's performance which was measured by earning per share, return on equity and return on asset variables. Thus, the higher the level of debt, the lower the firm's performance. The study was based on the data in 136 industrial companies listed on Istanbul Stock Exchange (ISE) from 2005 to 2012. The other study also applied long-term debt divided by assets in non-financial firms, whereas for financial firms, total liabilities were divided by assets to estimate the debt ratio and the return on equity as an indicator of firm performance (Jouida & Hallara, 2015).

Furthermore, the corporate managers should consider the effects of leverage towards the firm's performance. In addition, before making any investment decisions, the investors should look on the debt levels in a firm's capital structure. In relation to this, Sheikh and Wang (2013) stated that the short-term debt is positively related to market-to-book ratio but, there was still no significant relationship between them. The study conducted was based on 240 non-financial firms listed on the Karachi Stock Exchange (KSE) Pakistan during the period of 2004 until 2009. The results found that Pakistani firms usually choose short-term debt as their preference compared to the long-term debt. It is also due to the instability of the country's political and economic conditions.

Moreover, the study by Kachlami and Yazdanfar (2016), concluded that short-term debt is positively associated with a firm's growth. The short-term debt is identified as the debt repayable in one year, hence it provides SMEs a higher growth rate in Sweden. The sample included the firms which preferred to finance their operations mostly with short-term debt from 2009 to 2012. This was due to its flexibility as the source of financing that can be used anytime. However, Anuara and Chin (2016) found contradictory results in which there was a negative relationship between the short-term debt and firm profitability. The sample of data was based on the annual report of micro franchising business in Malaysia with the start-up capital of not more than RM50, 000 from 1999 until 2003.

The study by Nassar (2016) explored the influence of capital structure on the financial performance of 136 industrial companies listed on Istanbul Stock Exchange over the period of eight years from 2005 to 2012. The study used earning per share, return on equity and return on asset to measure firm performance and to measure capital structure by taking total debt to total assets as proxy for capital structure. The study concluded that the capital structure and performance of the firm are negatively related. The managers should consider the level of debt to improve the performance of the firm. Besides, the study by Joudac and Hallara (2015), shows that the total debt is negatively related with the profitability of the firm. They measured the performance of 172 French banks comprised of commercial banks, cooperative banks, investment banks and saving banks from 2002 until 2012. These banks preferred to build up capital by retaining their earnings. In contrast, the study by Fen et.al (2012), found that there is no significant result between the leverage and the firm value based on 50 software and computer service firms in Malaysia over the period of 2005 to 2009.

Tangibility shows the fixed asset investment and long term resources held by the firm. If the company has more tangible assets, the company has higher capacity to make a higher debt on the collateral agreement. Most of the researchers used the ratio of fixed assets to total assets as a proxy to measure the tangibility of asset and suggested that the tangibility and financial performance are negatively related. The study by Dawar (2014) used asset tangibility as the variable to examine the performance of firms in India as one of the emerging economies. The study used 78 companies listed on Bombay Stock Exchange to find out the effect of leverage

towards the firm performance. Ratio of net profit to total equity was applied to measure performance of the firm and ratio of fixed asset to total asset to measure the tangibility. The finding shows a negative relationship between tangibility and firm performance. Hence, the study is parallel with Vatavu (2015), which applied the same measurement. The finding also shows that the asset tangibility also has a negative relationship towards the firm performance. It is better to own less tangible assets and keep a large amount of equity in the capital structure (Vatavu, 2015). However, the study by Suresha and Mehta (2015) found that there is a non significant positive effect on capital structure based on the sample of information technology firms in India from 2009 until 2014.

For size of the firm, the measurement of study used natural logarithm of total asset. The size of firm works as a sign for large firms with lower asset volatility and better performance. In this study, Chadha and Sharma (2015) tested the trade-off and pecking order theory to find out which one of them is more related to Indian manufacturing sector on Bombay Stock Exchange. Firm size has a positive effect on the firm's performance due to the low future cost of financial distress based on the trade-off theory. The large-sized firms are more diversified and have less default of risk. However, pecking order theory indicates negative relationship due to the higher usage of retained earnings by the large firms. Hence, it could be said that the significant correlation occurred between firm size and the key determinants of capital structure in India. The study by Yazdanfar and Ohman (2015) shows that the firm size and profitability of the sampled SMEs are positively related. It is due to greater possibility of taking advantage of diversification and economies of scales. However, the firm size has a non significant positive relationship towards the firm performance in the listed information technology firms in India (Suresha & Mehta, 2015). The result shows that the larger the firm, the higher the long-term debt and vice versa. However, the findings of this study contradict with Zuraidah et al. (2018), who found that the firm size has a significant and positive relationship with the firm performance, which is the bigger the firm size, the more fund they need to finance their operations and to support their new target growth. The finding by Zuraidah et al. (2018) is consistent with the studies by Ferri and Jones (1979) and Utami (2012). These two suggest that larger firms have easier access to the markets and can borrow at a better circumstance.

3. Estimation Method

The study is of quantitative nature method and it was adopted to accomplish the objective, which is analyzing the changes in debt level, tangibility and firm size towards the capital structure of firms' performance in technological sector. The explanatory variables consist of long-term debt (LTD), short-term debt (STD), tangibility and firm size while dependant variable which is firm performance is measured by return on equity (ROE). Data for the study were limited to the selected figures from financial statements of the eleven listed firms which contributed to the 66 observations in the Main Market of Bursa Malaysia. Besides that, this study also had limited sample whereby it focuses on the technological sector only. The model Pool OLS, Random Effect and Fixed Effect were applied to reveal the findings. The study period is six years from 2012 through 2017.

3.1 Dependent Variable

Capital Structure refers to the proportion of firm's equity and debt in financing its assets, project or growth that provide the impact towards firm performance. Hence, firm performance is measured by return on equity of eleven Malaysian listed companies that consist of 66 observations in the technological sector. The return on equity ratio is measured as net income divided by total equity.

3.2 Independent Variables

3.2.1 Long-Term Debt

Long-term debt is the amount owed for a period of more than twelve months from the date of balance sheet. A firm must show the long-term debt along with its interest rate and maturity date. It could be in the form of debenture, mortgage, bonds and bank loan. The amount of long-term debt is a measure of the firm's leverage. Long-term debt ratio is measured by long-term debt divided by total assets.

H₁: Long-term debt has a relationship with the firm performance.

3.2.2 Short-Term Debt

Short-term debt is the amount of a loan that is payable to the lender within one year only. Bragg (2017) stated that those amounts are considered as short-term liability in the balance sheet. The most important thing is to consider the balance in the short-term debt account when evaluating the liquidity of a business. Short-term debt ratio is measured by short-term debt divided by total assets.

H₂: Short-term debt has a relationship with the firm performance.

3.2.3 Tangibility

According to Harvey (2012), tangibility is the characteristics that an asset can use as collateral to secure debt. Many assets have tangibility, including cash, real estate and personal property. Tangibility explicitly does not include patents, brands or intellectual property and cannot be used as the collateral. Tangibility is measured by net-fixed asset divided by total assets.

H₃: Tangibility has a relationship with the firm performance.

3.2.4 Firm Size

The size of company can be defined as categorising companies, businesses or firms according to their size which is total assets. The higher the total asset, the larger the size of the firm. Divisions are typically micro business, small business, medium-sized business and large-sized business. Firm size is measured by natural logarithm of total assets.

H₄: Firm size has a relationship with the firm performance.

3.3 Equation

The equation formulated for the data analysis is as shown below:

$$Y_{it} = \beta_0 + \beta_1 \chi_{1it} + \beta_2 \chi_{2it} + \beta_3 \chi_{3it} + \beta_4 \chi_{4it} + \epsilon_{it} \quad (1)$$

Where;

Y = Firm Performance (Return on Equity)

α = Intercept

B = Coefficient Beta Value

χ_1 = Long-Term Debt (LTD)

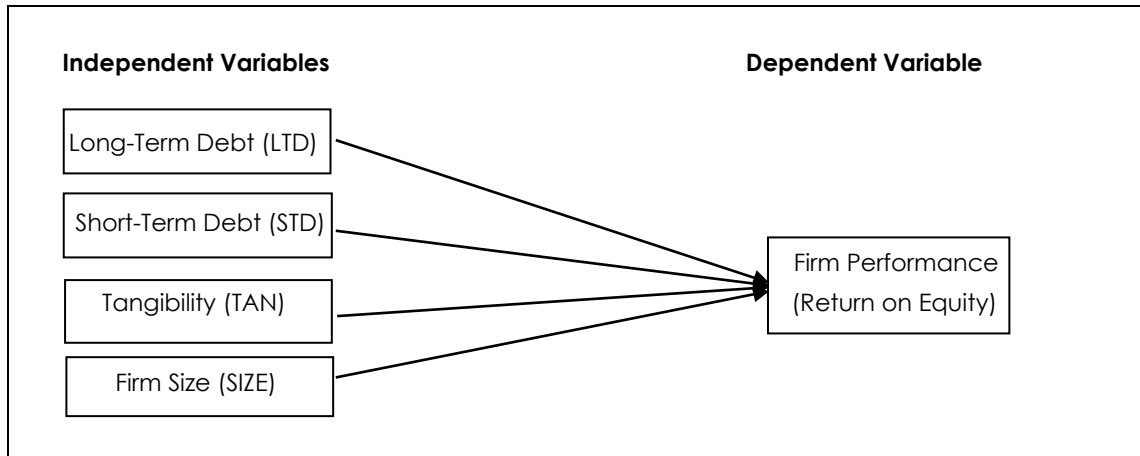
χ_2 = Short-Term Debt (STD)

χ_3 = Tangibility (TAN)

χ_4 = Firm Size (SIZE)

ε = Error term

Figure 1: Theoretical Framework



The study investigates the relationship between LTD, STD, TAN and SIZE towards firm performance in technological sector. The theoretical framework provides an understanding on whether each of the independent variables has any relationship with the level of firm performance.

4. Results and Discussion

4.1 Descriptive Analysis

Table 1: Descriptive Analysis

	ROE	LTD	STD	TAN	SIZE
Mean	-0.047252	0.115694	0.232428	0.194983	8.254086
Maximum	0.388300	0.753700	0.788600	0.602200	9.150600
Minimum	-2.681000	0.000400	0.046200	-0.000200	6.807300
Std. Dev.	0.372479	0.176130	0.124324	0.183548	0.606283
Skewness	-5.601429	2.700667	1.717416	0.744473	-0.597967
Kurtosis	39.91833	9.413851	7.680119	2.471974	2.321054
Observations	66	66	66	66	66

This section presents empirical analysis of results of the study. Table 1 highlights the summary of descriptive statistics for the dependent and independent variables for the sample of firms. It shows that firm performance which is measured by return on equity (ROE) for the sample has an average value -0.0473 and a standard deviation of 0.3725. The highest ROE is 0.3883 and the lowest ROE is -2.6810. Longterm debt (LTD) which is measured by the ratio of longterm debt to

total assets has an average value of 0.1157. Its standard deviation of LTD is 0.1761, while the maximum LTD is 0.7537 and the lowest LTD is 0.0004. The average short-term debt (STD) measured by the ratio of short term debt to total assets, is 0.2324, and its standard deviation is 0.1243. The range of value STD is from 0.0462 to 0.7886. For tangibility (TAN), measured by net fixed assets to total assets, the mean reported is 0.1950 and the range is from a low -0.0002 to a high 0.6022. The standard deviation for TAN is 0.1835. The mean value for size (SIZE), measured by Ln (Total Asset), is 8.2541 and the range of value SIZE is from the minimum value 6.8073 to the maximum value 9.1506. The standard deviation for size is 0.6062.

4.2 Pearson Correlation

Table 2: Pearson Correlation

	ROE	LTD	STD	TAN	SIZE
ROE	1.000				
LTD	-0.0037 (0.9767)	1.000			
STD	0.0515 (0.6835)	-0.2920** (0.0183)	1.000		
TAN	0.2590** (0.0373)	-0.2271 (0.0688)	-0.1982 (0.1134)	1.000	
SIZE	0.4768* (0.0001)	0.2385 (0.0557)	0.1317 (0.2956)	0.3618** (0.0031)	1.000

Notes: * $p < 0.01$, ** $p < 0.05$

Table 2 reports the Pearson Correlation Matrix between the variables. There is a mixed correlation derived from the matrix for each of the variables. The strongest correlation is extracted from the correlation of SIZE towards firm performance which has coefficient 0.4768. This is followed by the same independent variable with correlation TAN 0.3618 and correlation STD towards correlation LTD 0.2920. The following correlation is TAN towards the firm performance with 0.2590, followed by correlation SIZE towards LTD with 0.2385 and correlation TAN towards LTD with 0.2271. Meanwhile, the four weakest correlations resulted from the firm performance on its independent variables are from the correlation TAN towards STD 0.1982, correlation SIZE towards STD 0.1317, followed by correlation STD 0.0515 and correlation LTD 0.0037 respectively.

4.3 Results of Regression

Table 3: Pooled OLS Model results

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	-2.522658	0.640399	-3.939198	0.0002
LTD	-0.263530	0.295367	-0.892209	0.3758
STD	-0.125188	0.398977	-0.313772	0.7548

TAN	0.086728	0.288483	0.300634	0.7647
SIZE	0.305071	0.086020	3.546531	0.0008
R-squared	0.2461	Prob (F-statistic)		0.0017
Adjusted R-squared	0.1959	DW Stat		2.0965
F-statistic	4.8975			

Table 4: Fixed Effect Model results

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	-7.818302	1.985043	-3.938605	0.0003
LTD	-1.259394	0.497234	-2.532799	0.0145
STD	-0.410517	0.455154	-0.901930	0.3714
TAN	0.998207	0.900809	1.108123	0.2731
SIZE	0.947111	0.241579	3.920499	0.0003
R-squared	0.5031	Prob (F-statistic)		0.0003
Adjusted R-squared	0.3640	DW stat		2.3853
F-statistic	3.6168			

Table 5: Random Effect Model results

Variable	Coefficient	Std. Error	t-Statistics	Prob.	VIF
C	-3.098611	0.849232	-3.648721	0.0006	
LTD	-0.464753	0.341277	-1.361809	0.1783	1.4110
STD	-0.122069	0.388828	-0.313941	0.7547	1.6084
TAN	-0.013949	0.364326	-0.038286	0.9696	1.5602
SIZE	0.379678	0.110542	3.434695	0.0011	1.5525
R-squared	0.1884		DW stat		2.3990
Adjusted R-squared	0.1343		Serial Correlation		0.7104
F-statistic	3.4825		Heteroskedasticity		0.2569
Prob (F-statistic)	0.0127		Hausman Test(cross-sec)		0.0887

Based on Table 3, 4 and 5 the results of panel data were analysed according to the three model estimations which are pooled ordinary least squares model, random effect model and fixed effect model. Furthermore, Hausman test was applied to the random effect and fixed effect model to choose which model is more suitable. Model pooled OLS only is insufficient to explain details about this study, hence random effect and fixed effect model were included to explain it further. Results from pooled OLS show that only size is significant and has positive relationship among the variables to explain firm performance which is less than 5 percent level. However, we assume all the companies are the same but that normally does not happen. The major problem with this model is that it does not distinguish between the various technological companies that

we have. In other words, by combining eleven companies by pooling, we deny heterogeneity or individuality that may exist among eleven technological companies. For further explanation, random effect and fixed effect model were applied. From both models, to know which model is appropriate to apply, Hausman test was regressed. Results from Hausman test show the p value is 0.0887 which is higher than 5 percent level. Since the results of Hausman test p value is more than 5 percent, random effect model is appropriate to explain details for this study. The findings under random effect model stated that the R-squared for all shows that the dependent variable is explained by the independent variable by 18.84 percent only. This is related to the weak correlation of the independents towards the correlation matrix analysis at the beginning. For the diagnostic test on multicollinearity, all the independent variables show a centred VIF ranging from 1.4 to 1.6 which indicates that there is no multicollinearity problem relies in the data. The auto-correlation test shows the value is 0.7104 which is more than 5 percent significance level, thus the model has no serial correlation. Next, the p value for heteroskedasticity test, is 0.2569 which is more than 5 percent level of significance and has a constant variance.

From the findings, it can be seen that only one of the four independent variables is significant to explain the relationship with the dependent variable. The results show that only size towards the firm performance is significant at 5 percent level and has positive relationship. This result explains the main research objective which is to examine the relationship between the size towards firm performance which is measured by return on equity. The study also found that, STD and LTD do not affect the firm performance since all the debts do not have significant relationship. The TAN also shows non significant relationship towards firm performance which means that, an asset is not suitable or insufficient to be used as collateral to secure debt.

This result is supported by the pecking order theory that is the managers prefer safety financing by utilising their liquid assets when funds are needed. Besides that, the bigger the firms' size the more fund they need to finance their operations and to support their new target growth. The finding of this study is parallel with Zuraidah et al. (2018), where the study found the firms' size is significant at 5 percent level and has positive relationship with the firm performance. Moreover, the finding is consistent with the finding by Ferri and Jones (1979) and Utami (2012). They also suggested that larger firms have easier access to the markets and can make loans at a better circumstance.

The management of a company may decide to use equities for financing which only involve the internal funds that come from its own shareholders and the company's profit. They also used total assets as the measurement for firm size which indicates that mostly they include cash since they are easily liquidated. The higher total assets give high impact on the company, encouraging it to have better cash flow. As for the debts, if the more debt the companies have, the less efficient they are to manage the shareholders' money.

It has been proven that the size of the firms determine the performance of the firm. They will look at the advantage of diversification and default risk that occur. In this study, firm size was found to have a significant relationship with the firm performance which is measured by return on equity. Despite being significant, it was positively related with firm performance. It indicates that any increase of 1 unit in firm size will cause a small increase of 0.0011 units in firm performance. It shows that the firm will be able to have better performance.

From Table 1, the average value of firm size is 8.2541 which proves that most of sample firms in technological sector have enough assets to generate sales and profits and do not totally depend on the amount of debt. The technological firms have shown that they are well prepared to involve themselves in this sector due to the rapid growth of technology and very high cost

needed. If they use debts as the source of financing, it will take time to pay back the loans. It will affect the firms' performance when they still have debts to be paid back but the technology is already outdated.

5. Conclusion

As a conclusion, only firm size plays an important role in determining firm performance in the technological sector. This industry has a huge potential for maximum growth supported by the nature of the technology business that is endlessly evolving. Hence, it is vital as a financial manager in this sector to have a great idea and consider the variables which can stimulate the optimal capital structure when making the right decision to the matter. Brilliant decision for firm performance in technological sector on how to choose a great capital structure, between debt and equity, will open the door to attract the new and sustain the existing shareholders to invest further, and therefore increase the holding of equities.

Thus, overall findings have found that the eleven companies in technological firms in Malaysia do not use debt as their financing to fund the business operations as the debts have no significant relationship towards the firms' performance. Besides, technological firms also do not use asset as a collateral to secure a debt as the TAN has non significant relationship towards the firms' performance. The findings obtained also confirm that firm size measured by using natural logarithm of total assets will affect the performance of the firm. Since most of the sample firms have enough assets to generate sales and profits, they will choose equity compared to debt to fund the business activities. Moreover, based on internal funding, the companies will purchase fixed assets that can increase the amount of equity. Besides, the average value is quite high and indicates that the larger the firm, the higher the firms' performance using the internal funds only to be used in financing business operations by a company. Moreover, this study is consistent with the main theory in finance that is the pecking order theory to explain capital structure that focuses more on equity or internal funds within the companies.

In addition, for further studies, some might consider to explore more on education technology. Even though digital learning is not a new concept, previously it was mostly limited to higher education courses. However, Covid-19 has shut down physical education establishment around the world, leaving teachers and students with no choice but to quickly adopt digital learning. In Malaysia, students have embraced online teaching and facilitation, teaching and learning tools via applications such as Zoom, Skype, Microsoft Teams, Google Hangouts, Google Meet, WhatsApp Telegram and other platforms to facilitate the learning process. However, the problem is not all Malaysians are equipped with the infrastructure for high-speed internet access. Moreover, the lack of outdoor activities and real life interactions sees a big uptake in media consumption. Thus, technological firms which serve a platform for education technology should move fast and upgrade services. Hence, it will give an impact towards firm performance and need continuous capital. This industry will grow day by day with new development technology through research and development.

The main contribution this research has provided to the body of knowledge about technological sector is in determining the capital structure which consists of debt and equity. The research findings show that only firm size is significant and has a positive relationship with firm performance measured by return on equity. The average value of firm size which is more than 82 percent proves that most of the sample firms in technological sector have enough assets to generate sales and profits and do not totally depend on the amount of debt.

Thus, it is recommended that future researchers also explore firms that serve in education technology of a specific country that determine the capital structure within debt and equity investment in this industry. The samples could come from developed countries, developing countries and third world countries since they have dissimilar level of funding. Therefore, future researchers can discover and generate new knowledge by conducting research on the effect of specific factors related to education technology in a specific country.

In a nutshell, most of the eleven companies in the technological sector used equity as the source of financing to fund their business activities. The good firms' performance can be shown by the ability of firms to have enough assets to generate the profits and lower future cost of financial distress for larger firms. Besides that, the sample firms need to finance their business operations quickly compared to other sectors due to rapid technology growth as for the time being. Firm size has a positive relationship and significantly affects the firms' performance in technological sector in Malaysia.

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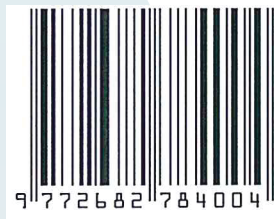
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