



**THE DETERMINANTS OF CAPITAL STRUCTURE:
THE COMPARISON BETWEEN MANUFACTURING
AND SERVICE SECTOR COMPANIES LISTED IN
BURSA MALAYSIA**

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LIST OF ABBREVIATIONS

MC	=	Manufacturing Companies
SC	=	Service Companies
PROF	=	Profitability measured by EBIT Ratio
TANG	=	Tangibility measured by Fixed Asset Ratio
SIZE	=	Size of Companies measured by Natural Logarithm of Total Assets
GROW	=	Growth measured by one plus Natural Logarithm of Sales
DR	=	Debt Ratio as first measurement of capital structure
CDR	=	Current Liabilities Ratio as second measurement of capital structure
NDTS	=	Non Debt Tax Shield measured by Depreciation Ratio
DPOR	=	Dividend Policy measured by Payout Ratio
RISK	=	Business Risk measured by Standard Deviation of EBIT Ratio
AGENCY	=	Agency Cost measured by change in Total Assets within two years
H_0	=	Null Hypothesis
H_A	=	Alternate Hypothesis



ABSTRACT

This research was conducted to disclose the factors that would influence capital structure decision and to identify whether capital structure of manufacturing sector companies (MC) and service sector companies (SC) were different in those factors. The dependent variable was the capital structure measured by debt ratio and current liabilities ratio. The independent variables were the profitability, tangibility, growth, size, non debt tax shield, dividend policy, business risk and agency cost of the firm. Analysis was conducted by using Multiple Regression Analysis to investigate whether both sectors were different regarding the determinants of capital structure. There were 120 companies involved in the analysis which were divided equally for MC and SC. Data were gathered from DataStream and the data was gathered annually from 2001 to 2005 for each of the companies. Scope of study involved MC and SC that listed in Bursa Malaysia.

This research found that, total debt of MC influenced by profitability, size, non debt tax shield, dividend policy and business risk. These variables also affected to total debt of SC but added other factors which were tangibility and growth of firm. While current liabilities of MC influenced by profitability, tangibility, size, growth and non debt tax shield. SC's current liabilities were affected by tangibility, size, growth, non debt tax shield, dividend policy and business risk. This study showed that both sectors were different in the determination of capital structure.