THE DETERMINANTS OF SHORT-TERM DEBT FINANCING

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ABSTRACT

Generally, short-term financing instrument plays important roles like spontaneous and internal resources and also in investment opportunities. This study is to determine the factors that affect the amount of short-term debt financing for the firms in Malaysia. The study is being conducted in order to examine whether there is a relationship between inventories, account receivables, long-term debt, common shares and quantity of tangible assets towards short-term debt financing. The analysis is based on 15 firms which selected by using stratified random sampling method from company listed in Bursa Malaysia. The firms that related to the real estate and investment industries are being excluded since their nature of short-term debt is varying from the context of this empirical study. The study period is from the quarter 3 of 2009 until quarter 3 of 2014 and a random effects model has been used. DataStream is being used as the sources of panel data and the data were collected quarterly and have a total of 315 observations.

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CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

Working capital management is one of the categories that involves in the success or failure of any firm in their decisions of financial management. Working capital management decision present major challenge for financial manager because of the rapidly changing nature of short-term markets, the level of competition, inflation, cost of capital and pressure to deliver maximum shareholder value (Lamberson, 1995; Salawu, 2007). These decisions involving the financial manager to decide about the financing and composition of current assets beside to determine the liquidity position of its firm. The failure of the financial manager to manage it working capital can resulting loss not only to the firms, but also to their workers. This is because, the failure of financial manager in making a good decision in working capital management, can resulting in bankruptcy to the firms beside their workers will lose their sources of income. Because of that, working capital financing should be classified as one of the important roles for the firm's success.

Managerial finance often discusses the relationship between debt financing and the firm performance since it is crucial. It is hard to satisfy the level of debt for any business because they need to maximize the firm profitability and value beside, to increase the ability of the firm to deal with its competitive environment. Although Modigliani and Miller (1963) suggested that firms can gain the benefits of tax-deductible interest payments by increasing the amount of debt in their capital structure, the financial manager should make good decisions since the