RELATIONSHIP BETWEEN DEBT FINANCING AND FIRM PERFORMANCE

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ABSTRACT

Since the late 1950s, the past theoretical and empirical studies have addressed the relationships between capital structure and firm performance. The main conflicts of interest are between shareholders and creditors. As the management and ownership are not separated in the vast majority of small firms, so this study is aimed the relationship between debt financing and firm performance. The relationship between debt financing and firm performance is a decisive and commonly discussed issue in managerial finance. The purpose of this study is to examine the relationship between debt level and performance of random top five construction companies that are listed in the Bursa Malaysia, whether it is give directly or indirectly affect the firm performance in term of profitability. For the empirical work, this study will be used data from the financial ratios of the firm. Independent variable to be used in this research is account payable (AP), short term debt (STD) and long term debt (LTD). For the dependent variable to represent the firm performance is return on assets (ROA). This research will gather the data from the datastream and in this research are using 10 years financial report of the firm from 2006-2015. Sample for this research are more focus on construction company and using panel data by using multiple linear regression.

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CHAPTER 1: INTRODUCTION

1.1 Background of study

Every single contractor knows the reality of financing Construction Company. Each company need to cover the cost to buy the material, payroll must be met and subs contractor need to be paid despite the inevitable lag between the time the work is done and the time the customer pays. There is absolutely no surprise when a vendor demands immediate payment for material, even though it will be a month or more before the company are paid for the associated job.

Finance is just one of many concerns in the construction industry but since access to funding is often the deciding factor between firms that thrive and firms that fail, it's probably the one that keep the most contractor up at night. Sources of funding are so important to every construction company to get the funds and it is important to understand the options that are available.

According to Madya, Haji, Ghani, & Ahmad, n.d.(2010), Financial resources are part of the internal sources which can affect the performance of the business and is one of the key elements highlighted in the RBV theory (Basic View of Sources). Additionally, a source of business financing business or capital structure is an element of the financial resources. Sources of financing business consists two large branches which is equity financing and debt financing.

Equity financing is a business capital financing methods that does not require repayment and does not charge any interest on funds advanced but offers to investors a form of ownership in the business. Equity financing comprises of sources such as venture capitalists, angels, family/friends equity contribution and other external resources. Equity financing can also consist of a source of own savings, contribution of the board, the contribution of partners, property of the omission, deferred income and cash flows of the