THE RELATIONSHIP BETWEEN CAPITAL STRUCTURE AND FIRM PERFORMANCE OF MALAYSIAN TECHNOLOGY SECTOR LISTED IN BURSA MALAYSIA.

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ABSTRACT

Capital structure refers to the firm's financial structure that consists of debt in the forms of bond issues or long-term notes payables and equity in the forms of common stock, preferred stock and retained earnings that are used to finance the firms operations. The value of the firm and the ability of the companies to meets their stakeholders need are related to capital structure. This study is conduct in order to investigate the relationship between capital structures with corporate performance of firms. The aim is to know how firm mix financing will affect the firm value. This study focuses on five technology base companies which are listed in main board of Bursa Malaysia. Data is collected from DataStream and firms annual report. The data of the companies is select from the year 2005 until year of 2014. In this study, Return on Asset (ROA) is used to represents firm's corporate performance. Meanwhile, Short-term debt, Long-term debt, Total debt and firm growth act as independent variables that will affect the firm's corporate performance. This study is mainly a quantitative study which is panel data. The quantitative study uses a multiple linear regression model and run through a few statistical tests in order to illustrate the relationship between capital structure and firm's performance. The study reveals that STD and TD are negatively correlated with firm's performance. Meanwhile, LTD has positive effects towards firm's performance. The study also shows that, FG is positive significantly related to firm's performance.

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CHAPTER 1: INTRODUCTION

1.0 Introduction

Every firms need capital in order to finance their operations and business. Firm manager have to make important decision which is to determine firm's optimal capital structure. Good frameworks of capital structure able to maximize firm value. However, it is not easy for firm manager to obtain an optimal capital structure in a real world. Capital structure consists of various sources of funds that include debts and equity. The success of the firms and the ability of the firms to meets their stakeholders need are related to capital structure. Therefore, it is crucial to investigate the relationship and the impacts of firm capital structure towards their performance.

This study is conduct in order to identify what is the relationship between capital structures with firm performance by using financial theory. This study involves six technology companies that are listed on Bursa Malaysia. In this study, Return on asset (ROA) is used to represents firm performance. Meanwhile, Short-term debt, Long-term debt, Total debt and firm growth act as independent variables that will affect the firm performance. The data is collected from year 2005 until year 2014. This study is mainly a quantitative study which is panel data and employs a multiple linear regression model and run through a few statistical tests in order to illustrate the relationship between capital structure and firm performance.