UNIVERSITI TEKNOLOGI MARA

THE CAPITAL STRUCTURE DETERMINANTS OF SHARIAH AND NON-SHARIAH COMPLIANCE COMPANIES: EMPIRICAL EVIDENCE FROM PROPERTY COMPANIES IN MALAYSIA

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Thesis submitted in fulfilment
of the requirements for the degree of
Master of Science
(Business Management)

Faculty of Business and Management

September 2023

ABSTRACT

The purpose of this study is to investigate the determinants of the capital structure of Shariah and non-Shariah Compliant companies in Malaysia, comprising of 96 listed property companies in Bursa Malaysia for a period from year 2010 to 2019. The study used panel data analysis and employed static model of estimation in panel data model selection of the best model. The study analyzed three models namely on the i) Full sampled without Shariah Compliant dummy variable ii) Full sample with Shariah Compliant dummy variable iii) Shariah Compliant iv) non-Shariah Compliant. For the first model on full sample without Shariah dummy variables, the study revealed a result of liquidity has a positive coefficient value towards capital structure, which proven that without liquidity of firms, it cannot be measured the financial performance of each organization. Meanwhile, firm size and return on asset are not affected with capital structure which unable to prove the evidence of any substantial association between firm size and debt of Shariah and non-Shariah Compliant property companies in Malaysia. Subsequently, for the model of full sample with Shariah Compliant dummy variable, revealed that there is a difference of Shariah Compliant companies in the debt-to-equity ratio as compared to non-Shariah Compliant companies. However, the findings failed to provide empirical evidence to support that this difference is statistically significant. Followed by the third model of Shariah Compliant, shows that return on asset and firm size has insignificant coefficient and this prove that previous studies has disagreed on whether company size is an important factor in capital structure. Thus, the last model of non-Shariah Compliant revealed that Shariah and non-Shariah Compliant property companies have different capital structure practices, due to underlying value and theories that both parties adhere to. The implication of this study is that this study intends to highlight the optimal capital structure that can be enlightened by two theories which are trade-off theory and pecking order theory. These two theories will decide whether to employ external or internal capital sources. This study also led the business to enhance its values while examining the capital structure. Hence, it's also giving an understanding the difference in the Shariah and non-Shariah Compliant firm values of property companies in Malaysia. Thus, for future research, it is suggested that this study investigates the impact of capital structure on property companies. This future study might include the cost and risk connected with the firm's financing option might have an impact on its profitability.

Keywords: Capital Structure, Shariah Compliant, non-Shariah Compliant, property companies, Malaysia

ACKNOWLEDGEMENT

All praises to Almighty Allah, the most merciful and the most benevolent for giving me these opportunities in completing this thesis. It would be impossible for me to spent time to complete this thesis without the grace and help of Allah S.W.T.

Firstly, I am indebted to Dr. Norzitah Binti Abdul Karim and Dr. Husniyati Binti Ali whose excellence in supervision and plays a big role in inspired my work. Without they untiring encouragement, suggestion, ideas and comments throughout this work, this thesis could not be completed.

My appreciation goes to my beloved family especially to my beloved father and mother for the endless support, encouragement for their help throughout my journey in MSc. It gives me tremendous enjoyment in expressing my appreciation to all the individuals who have supported me and had their contributions in making this current thesis possible. Their positive criticism, critical remarks and suggestions have always been incredibly supportive in improving my skills and for strengthening the research work. I am sincerely appreciative to them for sharing their frank, honest and illuminating views on several issues related to the project. Alhamdulillah.

Thank you.

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CHAPTER ONE
INTRODUCTION

1.1 Introduction

This study focuses on the relationship between the capital structure of Shariah and non-Shariah property companies in Malaysia. This study aims to examine the appropriate and efficient capital structure for each property company. To ensure that this research is achievable, the study is driven by research objectives and research questions, followed by the scope of the study and the organizational structure of this chapter.

1.2 Research Background

The selection of capital structure is one of the most difficult tasks that organisations confront. The capital structure decision is significant since it influences the firm's financial success. A company's capital structure is defined as the unique mix of debt and equity that it utilises to fund its activities (Abor, 2005). Firms can select from a variety of capital arrangements. Firms, for example, might issue a significant quantity of debt or a little amount of debt. Lease finance, warrants, convertible bonds, forward contracts, and bond swaps are all choices for businesses. They can also issue hundreds of different securities in an infinite number of combinations (Abor, 2007).

The rapid and sustained development of a corporate organization is related to how effective management finances operations. Thus, decisions in regard to the capital structure are vital for every firm. Today's corporate business organizations often employ a combination of internal and external sources of funding. Such as, internal sources would be an initial public offering (IPO), whereas external sources are debt (Wahab et al., 2012). Therefore, companies must ensure that their capital structure decisions maximize their firm value. Tuovila (2021) defines capital structure as the combination of debt and equity capital of a company. Capital structures determine how firms finance their overall operations and growth by using different sources of funds. Meanwhile, debt comes in the form of bond issues, while equity is classified as common stock or retained earnings. Thus, capital structure is important as it is related to the capability of the company to achieve the needs of stakeholders (Yildirim et al., 2018). There