UNIVERSITI TEKNOLOGI MARA

# THE IMPACT OF FINANCIAL CRISIS ON THE DETERMINANTS OF CAPITAL STRUCTURE: EVIDENCE FROM FINANCIAL SECTOR LISTED IN BURSA MALAYSIA

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# ABSTRACT

Global financial crisis 2007 to 2008 had lead to down turns of stock market worldwide, bailout of banks by US government as well as collapse of big financial institutions. In the interim, the housing markets are also affected by the crisis which had led to many evictions. This crisis is also affected Malaysia's economy which had resulted in unsatisfied performance of most of the company in Malaysia. Firm-specific weaknesses were essential factors in the failing performance of the corporate sector in Malaysia. Therefore, this study is to examine the impact of financial crisis on the determinants of capital structure of finance sector in Malaysia. In this study the two dependent variables used to measure the capital structure, are the short-term debt (STD - ratio of current liabilities to total assets) and long term debt (LTD - ratio non-current liabilities to total assets). Therefore, STD is related to the current liabilities, which usually include credit cards, bank overdrafts, lines of credit and liabilities to suppliers. On the other hand, LTD is related to non-current liabilities such as long-term bank loans and other long term liabilities as hire purchase or leasing. In addition, the determinants used to identify the impact of financial crisis on capital structure are firm size, liquidity, profitability and tangibility. Research period is from 2002 to 2013, resulting eleven (11) finance firms in financial sector listed in Bursa Malaysia. Panel data technique has been used and regression analysis has provided very significant results. The data for this study will be tested using the e-views software. The result is expected that all variables are significant to capital structure of finance firms.



**Keywords:** capital structure, Malaysia financial sector, financial crisis

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# TABLE OF CONTENTS

# CHAPTER ONE
# INTRODUCTION

## 1.1 INTRODUCTION

In order to understand capital structure as a whole, this section provides an overview of its meaning and reviews the capital structure determinants suggested by previous empirical studies. Additionally, this section will discuss about global financial crisis and its impact. Other than that, this section will design a research question and research objective of this study.

## 1.2 BACKGROUND OF STUDY

### 1.2.1 Capital Structure

The capital structure is how a firm gets funds to operate its overall operations and expand their business. Firms have two forms to finance their assets whether by debt or equity. Saad (2010) capital structure in financial term means the way a firm finances their assets through the combination of equity, debt, or hybrid securities. According to San & Heng (2011) capital structure refers to the firm's financial framework which consists of the debt and equity used to finance the firm.

Equity can be divided into common shares and preferred shares. Firms have to make very careful decision regarding their capital financing options, whether they should go public by issuing equity. Equity is the money invested by the shareholders and presents long term financing since it does not obligate to an effective repayment. There is an associated return expected by the shareholders for the sustained risk, which is dependent on the firm's profitability. However, if this return does not meet the shareholders expectations the company will not be necessarily in a situation of bankruptcy.