UNIVERSITI TEKNOLOGI MARA

CAPITAL STRUCTURE ON FIRM'S PERFORMANCE: INFORMATION AND TECHNOLOGY INDUSTRY

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Thesis submitted in fulfillment of the requirements for the degree of

Bachelor of Business Administration

(Hons)(Finance)

Faculty of Business and Management

July 2017

ABSTRACT

This research paper mainly focuses on firm performance in information and technology sector as the technology able to thrive the economic growth. This investigation has been performed on a sample of 13 companies of information and technology sector for period of 5 years starting from 2012 to 2016, resulting total numbers of observations of 61. Firm's performance was measured by using return on asset as dependent variable that mostly supported and applied by previous researchers. However, the factors used to test on the firm performance are long term debt to total assets, short term debt to total assets, debt to equity ratio and tax which act as independent variables. The data is gathered from annual report of Wall Street Journal and a multiple linear regression is used in this study. In addition, econometric tests are employed to observed the relationship between factors of capital structure on firm's financial performance. Interactive software package E-views9.5 would be used for testing and analyzing the data collected. Using pooling panel data regression method, the expected findings of long term debt to total assets, short term debt to total assets, debt to equity ratio and tax has negative relationship with firm's performance.

ACKNOWLEDGEMENT

Alhamdulillah, thanks to ALLAH S.W.T, the Most Gracious and the Most Merciful for giving me strength on successfully completing this project paper. All the praises and thanks to Him for giving me the times, wills, guidance, and strengths during the period of this project. This project paper will not successfully complete without cooperation from many parties. They have contributed a lot in preparing this project paper. I am thankful to many people who provide me the kind assistance or had contributed immensely to the success completion of this project paper in due time.

I wish to express my sincere gratefulness and gratitude to Madam Zuraidah Binti Ahmad who act as my supervisor and my co-supervisor, Sir Mohamad Azwan Bin Md Isa for their patients, supports, ideas and guidance through-out the process of completing this project paper. Special thanks dedicated to both of my parents, Mr Hassim and Madam Nafizah for their concerns and morals, the staffs of Universiti Teknologi Mara, Segamat, Library as well my friends for their helps, concerns, morals, and facilities.

I would like to grab this opportunity to express my deepest appreciation for those who had contributed a great deal towards the completion of this project paper. I have learnt much about this subject. I wish to extend my appreciation to my family, especially to my parent for their moral support in completion this project paper. In conclusion, I am grateful to ALLAH S.W.T for his guidance and the continuous good health and wealth which without His blessed I might have not completed this project paper. Thank you.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This study is to examine the impact of capital structure on firm's performance of information technology firms listed in international market. The introduction chapter will briefly discuss on the background of the study, problem statement, research questions, research objectives, significant of study, scope of the study, limitation of study, and provide a summary.

1.2 BACKGROUND OF STUDY

Financial structure or also known as capital structure (Amjed, 2007), is an amalgamation of debt and equity that a normally a firm used to finance its business operations (Ahmed Sheikh & Wang, 2013). Debt financing or leverage is one of the most vital elements in capital structure. By using large or little amount of debt on capital structure is the option made by the firms. The user of capital structure such as shareholders, other stakeholders, creditors, investors, regulators, and analysts, claimed that capital structure is vital to them. It is very crucial as the decision on capital structure could impact the firms' performance (Gill & Mathur, 2011). In addition, capital structure also provides an important information to the end users and company management in order to make decision of the firms in creating its value. Essentially, the firms are likely centred around their internal financing (retained earnings) contrasted with the debt financing to keep up firm's continuity (Ting & Lean, 2012).

According to Modigliani & Miller (1958), they identified that capital structure has no impact on firm's value under the perfect capital market assumptions. There is various assumption was created such as there is no corporate taxes, no transaction cost and agency cost, efficient market and have homogenous (consistent) expectation. Many investors and researcher has been criticized this MM theory objecting that there is no perfect capital market in the real business world. In addition, Modigliani & Miller