UNIVERSITI TEKNOLOGI MARA
Cawangan Perlis
Kampus Arau

MCDONALD'S

GERBANG ALAF RESTAURANTS SDN BHD

INDUSTRIAL TRAINING REPORT

1 MARCH 2023 - 15 AUGUST 2023

THE DETERMINANTS OF CAPITAL STRUCTURE OF CONSUMER PRODUCT SECTOR BEFORE AND DURING PANDEMIC

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EXECUTIVE SUMMARY

This paper is a report of student's internship for the Industrial training course. The internship was carried out for 6 months from 1st March 2023 until 15th August 2023 before completing Bachelor of Business Administration (Hons) Finance. McDonald's Seri Iskandar DT, Perak was chosen to complete the internship program. This company runs and franchises McDonald's restaurants that offer food and beverages that match local tastes.

This report includes details on industrial training, the organization, technical report on the work completed while undergoing internship, as well as the summary of the entire report. Additionally, this report also includes the research study that was carried out by the student during internship period. Through this industrial training, students will be exposed to a real work setting in the field that is related to the courses attended. It offers students the chance to develop their knowledge, as well as soft skills.

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2.0 COMPANY PROFILE

Figure 1: McDonald's Logo

2.1 COMPANY'S BACKGROUND

McDonald's was established in 1955 and founded by Ray Kroc. The first McDonald's store debuted in Des Plaines, Illinois. The largest fast service restaurant franchise in the world, McDonald's has more than 36,000 outlets and serves more than 70 million people everyday in more than 100 countries.

McDonald's made its way to Malaysia in December 1980 when McDonald's USA granted Golden Arches Restaurants Sdn Bhd the authorization to run McDonald's restaurants in Malaysia. 1982 is the year when the first McDonald's restaurant built in Malaysia at Jalan Bukit Bintang, Kuala Lumpur. Under the 'Development Licensee'(DL) franchise arrangement, Lionhorn Company Pte Ltd of Saudi Arabia owns all of McDonald's Malaysia. McDonald's Corporation in the USA transferred ownership of McDonald's Malaysia to Lionhom Pte Ltd through this mechanism, and the company has been granted a license to completely run McDonald's Malaysia and Singapore.

With more than 320 locations across the country, McDonald's Malaysia now serves more than 13.5 million people each month. More than 15,000 Malaysians are employed by McDonald's, which offers career, training, and development opportunities at its restaurants around the nation.

2.2 COMPANY VISION

To make delicious feel-good moments easy for everyone.

2.3 COMPANY MISSION

The backbone of McDonald's Brand is, and always has been, a commitment to a set of core values that define who they are and how they run their business and restaurants.

2.4 COMPANY SERVICES/ PRODUCTS

McDonald's is a food service retail chain operator. The business runs and franchises McDonald's restaurants that offer food and beverages that match local tastes. McDonald's takes cultural considerations into account while catering to Malaysian consumers. The meal offered is Halal and as well as serving local taste. McDonald's has a wide range of menu items. McDonald's mainly serves hamburgers, chicken burgers, fried chicken, sides, various types of drinks (soft drinks, McCafe beverages), breakfast items, as well as deserts.

2.5 ORGANIZATIONAL STRUCTURE

MCDONALD'S MALAYSIA CORPORATE STRUCTURE

Figure 2: McDonald's Malaysia Corporate Structure

3.0 TRAINING REFLECTION

Internship is a crucial platform for anyone to gain experience in an actual workplace. Completing my internship in an actual workplace helps me to know and discover new experience in facing the reality of entering the workforce. Undergoing internship also helps me on how to work in a systematic organization. I had the opportunity to train for six months with outstanding teams, grow professionally and learn about McDonald’s culture and values. Throughout my days at McDonald’s, I was given a variety of positions as a crew team member at McDonald's throughout my time there, including those requiring me to prepare food in the kitchen and work at the main counter of the store.

3.1 Providing customer service.

The job includes taking customers’ orders as well as cashier. In addition, it also includes the job of assembling orders on trays or in a bag depending on the type of order. Three stations- the front desk, drive-thru, and McDelivery including other food delivery services such as FoodPanda and Grabfood- are assigned to the position. While performing this task, I must provide quick and accurate service while responding to inquiries and serving customers’ demands. Additionally, I must maintain a fast speed of service, especially during peak hours. Through this job, I am able to gain good communication and comprehension skills when interacting with customers.

3.2 Assigned to work in the kitchen and prepare orders for customers.

At McDonald’s I was taught how to prepare meals for customers. Crew trainer taught me how to prepare burger in the correct way based on companies’ station observation checklist (SOC) to assure the maximum quality of meals produced. The meals include breakfast to lunch hour, as well as supper. While performing this job, I am able to improve my multitasking skills which allow me to manage ongoing duties while maintaining an eye on the surroundings.

3.3 Barista at McCafe

I was also assigned as a barista at McCafe. The main duties as barista include preparing and serving hot and cold drinks such as coffee, and specialty beverages. I gained so much knowledge on how to prepare coffee drinks by following provided recipes and preparation methods for coffee drinks such as americano, caffe latte, cappuccino, and mocha. Through this task, it helps me develop my memorization skills to remember recipes while preparing orders.

4.0 RESEARCH REPORT

Capital structure is one of the key concerns in corporate finance. It is a crucial corporate strategy dealing with a firm's operations, with debts and equity, and it is an optimal combination of long-term debt and equity (Brounen et al., 2006). COVID-19 pandemic had been spreading globally in December 2019 and continued for a quarter till March 2020. There's no question that the pandemic presented a variety of challenges to businesses in the consume products industry. Businesses were unable to carry on their operation as normal. As a result, the circumstance could have an impact on corporate performance.

In context of my research motivations, the central aim of this study is to understand the driving factors of capital structure on consumer product companies before and during pandemic as well as examine whether internal factors such as liquidity, firm size and profitability affected capital structure of companies in the consumer product sector. The period of this study covers from 2018 to 2022 whereas before and during Covid-19. Therefore, earlier empirical research reviewed to examine the determinants of capital structure on consumer product sectors.

4.1 LITERATURE REVIEW

The empirical studies gathered to explore the factors influencing capital structure including liquidity, firm sizes, and profitability.

Myers (1984) uses pecking order theory, businesses utilize internal source of funding before external source. The study indicates a negative relationship between leverage and liquidity. As a result of the rise in retained earnings, debt, and equity by the firms. Thus, they likely have significant liquid reserves from retained earnings and borrow less debt from external sources.

(Moradi & Paulet, 2019) assert that there is a negative relationship between leverage and non-debt tax shields. They contend that tax deductibility of issuing debt reduced when certain expenses such as depreciation, amortization, depletion, advertising, research and development, and others are tax deductible.

Studies from Barnali Chaklader & B. Padmapriya (2021) found that there is positive relationship between profitability and leverage. Trade-off theory indicates firms with high liquidity using high debt financing since they have fewer liquidity risks and are able to fulfill their obligations. On the other hand, pecking order theory assumes that profitable companies have larger retained earnings and finance their operations through internal sources. The usage of debt financing will reduce the amount of cash available for managerial purposes since debt repayment is required. Hence, there is a negative relationship between profitability and leverage (Moradi & Paulet, 2019).

4.2 RESEARCH METHODOLOGY

This section focuses on formulating the model that will be used to examine the determinants of capital structure decision of consumer product firms in Malaysia. In particular, this study investigates a range of firm-specific independent variables including profitability, liquidity, and non-debt tax shields. Secondary data gathered and used to investigate the relationship between capital structure and internal factors. The data for this study was collected through Refinitiv Eikon.

The primary indicator used in this study is profitability. Profitability is the relationship between revenues and expenses by utilizing the firms' assets both current and fixed in productive activities. Profitability is the capacity of the company to earn profit through both current and fixed productive activities as demonstrated by return on assets, which enables them to finance from this internal generated fund. Profitability is measured through the ratio of earnings before interest and taxes to total assets. Two primary proxies used in the majority of profitability studies to measure a company's profitability include Return on Asset (ROA) and Return on Equity (ROE). In this study, profitability is represented by Return on Assets, which compares net income and total assets of companies.

Then, liquidity which defined as the extent to which companies has the ability to liquid its assets. Current ratio used to obtain companies' liquidity by measuring the ratio of current assets divided by current liabilities. Companies most likely rely more on internal sources of finance than external sources of funding. Specifically, companies are likely to raise capital in the form of high liquid reserves from retained earnings, resulting in a reduction in external debt borrowing.

Third indicator, known as non-debt-tax-shield is defined as fixed tax-deductible expenses such as depreciation, depletion, amortization, research and development expenses, investment tax credit and others, serve as tax shield in similar to how interest expenses from debt financing benefit the company by reducing the likelihood of using more debt. This variable is measured by using the ratio of depreciation expense to total assets. Higher levels of depreciation and amortization expenses lower the amount of taxable income, which deters companies from taking on more debt.

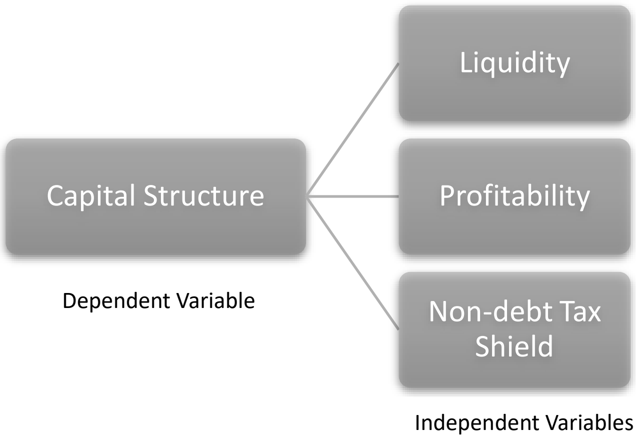

Figure 3: Independent variables used in this study examine the relationship with dependent variables.

Variables	Proxy	Symbols	Measurements
Leverage	Debt to Equity Ratio	DER	The ratio of total liabilities divided by total equity
Liquidity	Current Ratio	CR	The ratio of current assets divided by current liabilities
Profitability	Return on Assets (ROA)	ROA	The ratio of earnings before interest and taxes to total assets
Non-debt Tax Shield	Non-debt Tax Shield	NONTAX	The ratio of depreciation to total assets

Table 1: Variables, Symbols and Measurements

The regression model to be estimated is as follows:

$$DER_t = \alpha + \beta_1 ROA_t + \beta_2 CR_t + \beta_3 NONTAX_t + \varepsilon$$

Wheres;

DER_t = Debt to Equity Ratio

ROA_t = Return on Asset

CR_t = Current Ratio

$NONTAX_t$ = Non-debt Tax Shield

ε = Error term

	Obs	Mean	Std. Deviation	Min	Max
DER	100	0.6235164	0.7831965	0	3.965821
ROA	80	0.0660134	0.0547991	-0.08349	0.1976
CR	100	2.40146	1.870586	0.18771	10.62737
NONTAX	81	4.351358	3.485385	0.02	15.86

Table 2: Summary of Descriptive Statistic Analysis

Table 2 shows the descriptive statistics for capital structure of consumer product firms in Malaysia. As for debt-to-equity ratio, the total mean is 0.62, while the minimum is 0 and maximum is 3.9658. Apart from that, the amount of standard deviation is 0.7832. Return on asset on the other hand, act as the independent variable shows minimum of -0.08349 and a maximum of 0.1976. Apart from that, we can observe that current ratio obtains the second highest amount of maximum among others which is 10.6274, while getting 0.1877 for its minimum. Non-tax debt shield recorded as the highest maximum amount which is 15.86 and a minimum of -0.02.

	DER	ROA	CR	NONTAX
DER	1.0000			
ROA	-0.3252 (0.0032)	1.0000		
CR	-0.4011 (0.0000)	0.5133 (0.0000)	1.0000	
NONTAX	0.4844 (0.0000)	-0.1029 (0.3932)	-0.2761 (0.0126)	1.0000

Table 3: Correlation Analysis

Table 3 shows the summary of the results for correlation analysis between the variables. The analysis indicates that Return on Asset negatively correlated with debt-to-equity ratio, however it shows a significant level where the result is less than 0.10. This situation also happened to current ratio.

Non-debt tax shield on the other hand is positively correlated with debt-to-equity ratio and significantly affecting the capital structure at 1% significant level. It indicates that there is sufficient evidence to conclude that non-debt tax shield significantly affecting the capital structure at 1% significant level. Thus, it indicates that non-debt tax shield is the only and the strongest positive relationship found among the variables.

4.3 DATA ANALYSIS

Dependent Variable: DER
Method: Random-effects GLS regression
Number of Observation: 71
Number of Groups: 20

Variable	Coefficient	Std. Error	t-Statistic	Prob.	[95% conf. Interval]	
ROA	-1.077128	0.8224624	-1.31	0.190	-2.689125	0.5348688
CR	-0.0473248	0.0292095	-1.62	0.105	-0.1045744	0.0099247
NONTAX	0.0615094	0.0216624	2.78	0.005	-0.190518	0.103967
_cons	0.450548	0.1618758	2.20	0.005	.1332772	0.7678187
Sigma_u	0.38161435					
Sigma_e	0.20137784					
rho	0.78218671	(Fraction of variance due to u_i)				

R-sq:
Within = 0.0558
Between = 0.4406
Overall = 0.4165

Table 4: Random-effects GLS regression

4.4 FINDINGS

Table 4 above shows the results of random-effects GLS regression from the data obtained within period of 2018 to 2022. The results used in this study to determine whether the explanatory variables are significant to the indicates that independent whereas; profitability, liquidity, and non-debt tax shield explain the capital structure which is the dependent variable for this study.

Coefficient value determines the relationship between independent and dependent variables. From the analysis made, the findings indicate coefficient for Return on Asset (ROA) is -1.0771. As a result, 1% increase in return on assets will decrease capital structure by 1.08. It implies that leverage has a negative connection with profitability expressed by return on asset. According to pecking order theory profitable companies are less leveraged since they obtain more retained earnings where they don't have to borrow more debt to fund their operations (Moradi & Paulet, 2019).

In addition, there is a negative relationship between leverage and liquidity expressed by current ratios. The result shows that every 1% increase in the current ratio will decrease the capital structure by 0.047. This result implies to pecking order theory where liquid companies likely use their internal funds to support their investment (Khémiri & Noubbigh, 2018).

Non-debt Tax Shield (NONTAX) on the other hand, differs from the other two variables where it indicates a positive impact on capital structure. The results show that non-debt tax shield positive value by 0.0615. It implies that 1% of increase in non-debt tax shield will increase in capital structure. It is statistically significant where the probability value is less than 0.05 (0.005). Accordiing to Khémiri & Noubbigh (2018) firms must utilize debt as last alternative since they have insufficient non-debt tax shields to substitute corporate tax especially depreciation and amortization costs that result from small capital investment, generate little cash flows.

5.0 DISCUSSION AND RECOMMENDATIONS

The aim of this study is to identify the internal factors that giving impact to the capital structure in Malaysian listed product consumers companies between 2018 to 2022. Overall results estimated indicate that firm characteristics considerably influence companies' financing choice. The relationship is particularly strong in the case of the non-debt tax shield. While it indicates that profitability and liquidity have a negative relationship with capital structure as well as a significant impact on debt measures.

Even though this topic has been studied extensively, there is still a lack of research on how rising economies are affected. Company and national factors influencing the capital structure of firms. As a result, it is crucial for management to understand the approach, how its value will change based on company and national characteristics and how to make the best capital structure decision.

Secondly, companies still struggle to get external finance while relying on internal sources of finance to support their operations and growth. Thus, governments should focus more on legislative initiatives that would reduce unnecessary administrative costs for firms. In addition, the government should facilitate companies' streamline to external financing.

In addition, maximizing the advantages of tax shield in the interest on debt, which can raise the value of the business. This action should be taken by the corporate director. It is advisable to consider the stability of the macroeconomic environment as well as the role of monetary and fiscal policies implemented by the authorities when making capital structure decisions that balance the advantages and disadvantages of debt financing and add value to the business managers in these economies. In doing so, the business would be able to choose a financing strategy that would balance the advantages and disadvantages of taking on debt.

6.0 CONCLUSION

The objective of this study is to evaluate the financial structure of consumer product companies before and during pandemic, as well as to look into the firm-specific characteristics that could influence the capital structure. From the analysis of the capital structure of the consumer product sector, it can be concluded that there is no significant influence between liquidity on leverage. In addition, profitability has no significant effect on leverage. While non-debt tax shields on other hand, have a significant effect on leverage. This research is solely limited to empirical studies of factors influencing capital structure of consumer product sectors but does not solve the problem of how pandemic impacts the company's performance particularly in the setting of Malaysia.

To conclude, my industrial training for six months in McDonald's Seri Iskandar had given me a significant impact in terms of experiencing the real-life experience of workplace. It contributes in developing critical work skills as well as learning valuable collaboration and cooperation skills. I was assigned to various positions as a crew team member including those requiring me to prepare food in the kitchen and work at the main counter of the store. These experiences provide me with greater insights into many prospects required for the fast-food industry, it also forced me to develop certain emotions that we haven't yet fully acknowledged. Even though the job descriptions designated by the company are not related to the finance field, I was still able to learn a lot of new knowledge which I can never get in other places.

7.0 REFERENCES

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7.0 APPENDICES

Figure 4: McDonald's Seri Iskandar DT, Perak.

Figure 5: Achieve First Place in Drive-thru among other McDonald's branches in Malaysia.

Figure 6: Having picnic day with McDonald’s team.

Figure 7: OOTD on our first day of Hari Raya Aidilfitri

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Capital Structure
Liquidity
Profitability
Non-debt Tax Shield
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BACHELOR OF BUSINESS ADMINISTRATION (HONS) FINANCE
FACULTY OF BUSINESS AND MANAGEMENT
INDUSTRIAL TRAINING REPORT AT MCDONALD'S SERI ISKANDAR DT, PERAK.

Figure 8: Ouriginal Report