



**THE RELATIONSHIP OF CAPITAL STRUCTURE ON FIRM
PERFORMANCE OF LISTED FIRMS IN SOUTHEAST ASIAN
COUNTRIES.**

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ABSTRACT

This research aims to investigate whether the relationship of capital structure elements like short term debt to total assets, long term debt to total assets and total debt to total assets have any relations on firm performance of selected firms listed on Southeast Asian Stock Exchanges over 8 years from 2008 to 2015. The objective are firstly to identify the relationship between short term debt to total assets ratio and firm performance, secondly to identify the relationship between the ratio of long term debt to total assets and firm performance and thirdly to identify the relationship between total debt to total assets ratio and firm performance. The variables are consist of dependent variable which is firm performance measured by return on equity (ROE) meanwhile the independent variables are leverage ratios measured by short term debt to total assets, long term debt to total assets, total debt to total assets. For data or sample description, there are several types of data that has been used in conducting this research study such as journal, electronic sources and internet. For statistical or econometric method, this model was tested using EViews software application and test use descriptive, least square, and multicollinearity.

Chapter 1: Introduction

1.1. Overview / Background of Study

The capital structure assessment is essential for any business organization. The assessment is crucial due to the need of return or profits maximization to various organizational communities, and also because of the impact of a decision has on a firm's ability to deal with its competitive situation. The capital structure of a firm is actually a mix of different securities. In general, a firm can choose among many alternative capital structures. It can issue a large amount of debt or very little debt. It can position lease financing, use warrants, issue convertible bonds, sign forward contracts or trade bond swaps. It can issue dozens of distinct securities in countless combinations; however, it attempts to find the particular combination that maximizes its overall market value.

1.2. Problem Statement

A number of theories have been advanced in explaining the capital structure of firms. Despite the theoretical appeal of capital structure, researchers in financial management have not found the optimal capital structure. The best that academics and practitioners have been able to achieve are prescriptions that satisfy short-term goals. For example, the lack of a consensus about what would qualify as optimal capital structure has necessitated the need for this research. A better understanding of the issues at hand requires a look at the concept of capital structure and its effect on firm profitability. This research aims to investigate whether influence of ratios like short term debt to total assets, long term debt to total assets and total debt to total assets have any impacts on

firm performance of companies listed on the Southeast Asian stock exchanges during the period 2008 to 2015. The effect of capital structure on the firm performance of listed companies in Southeast Asia is a scientific area that interesting to explore since Malaysia is one of the countries in that region and it gives extra knowledge about financial world in Southeast Asia region when the study is done conducted.

1.3. Research Objective

The objective of the research is to examine the relationship between the firm performance, as proxy of return on equity, of company and capital structure and to be more specific objectives of the study would be:

- i. To identify the relationship between short term debt to total assets ratio and firm performance
- ii. To identify the relationship between the ratio of long term debt to total assets and firm performance
- iii. To identify the relationship between total debt to total assets ratio and firm performance

1.4. Research Question

In this research paper, there are several research questions that have been arisen regarding the problem statement occurred. These research question can be classified into main and sub research question. The main research question is how influential of the relationships between selected variables of leverage ratios and firm performance of selected listed companies in Southeast Asian stock exchanges, the sub research