THE RELATIONSHIP OF CAPITAL STRUCTURE ON CORPORATE PERFORMANCE

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CONTENT

ABSTRACT

The purpose of this study is to identify the relationship of capital structure on corporate performance. Return on asset (ROA) as a dependent variables, Short Term Debt (STD), Long Term Debt (LTD), Growth and Efficiency are used as the independent variables. It covers companies from two major sectors which are the Government Link Companies (GLC) and Civil Engineering sectors that listed on Bursa Malaysia. 25 companies were selected from Government Link Company and 33 companies were selected from Civil Engineering as the sample for this study. The financial data that were taken from the year 2010 till 2015 are used as survey for this study, resulting in a total number of observations of 348. Thus, these variables were seen to have a relationship to the corporate performance. To reassure that any grow effect of capital structure on firm performance is also examined, lag values for the proxies were used.

1.1 BACKGROUND OF STUDY

The capital structure of an organization's can be said as one of its most imperative perspectives. From the purpose of specialized point of view, the capital structure is translated as the watchful harmony amongst value and debt that a business use to fund its advantages for everyday operations and future growth. In any case, from a strategic point of view, it influences everything from the organization's hazard profile, how exorbitant that subsidizing is, that it is so easy to get financing, the arrival that the moneylenders and speculators seek after.

This paper probes the effect of capital structure on the organization's performance. A lot of past specialists, for example, Barclay and Smith (1995) and Ozkan (2002), had accomplished more particular on the immediate effect of influence on organization's execution, in light of the office cost theory presented by Jensen and Meckling (1976) and the free income theory proposed by Jensen (1986). Barclay and Smith (1995) and Ozkan (2002), predict that the decision of capital structure may effect organization's execution.

Capital structure is a mix of an organization's long-term debt, short-term debt, common equity and preferred equity. Where it's likewise a heading on how an organization funds its general operations. As guaranteed by Damodaran (2001), capital structure choice is the blend of debt and value that an organization uses to back its business. Interim for the corporate execution, is uncovering about how well an organization achieve on its most crucial parameters, ordinarily advertise, budgetary and shareholder execution. As indicated by Kraus and Litzenberger (1973) and Harris and Raviv (1991), if these three variables (Debt, Growth Rate and Bankruptcy Cost) are contemplated as determinants of capital structure, then these elements could be utilized to choose the organization's execution.

Thus, the connection between capital structure choices and firm value has been widely probed in the previous couple of decades. Concerning Modigliani and Miller