THE DETERMINANTS OF CAPITAL STRUCTURE ON CONSTRUCTION COMPANIES SECTOR IN MALAYSIA

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ABSTRACT

This study investigate the determinants of capital structure in construction companies sectors in Malaysia which are listed in the Bursa Malaysia. Therefore, the purpose of this study is to have a clear view on the relationship between the dependent variable of Debt Ratios and independent variables of Profitability, Size, Asset Tangibility and Liquidity of the construction sector companies used in this study and find the factors that affect the capital structure decision. Thus, this research wants to investigate and help managers to determine a good capital structure decision in running their business. There is 17 sample data derived from the construction companies with eight-year period from 2007 to 2014 which make the total number of observation at 136. The samples included based on the availability and continuity of the data on companies published financial statements found in Data Stream Professional during the period of 2007 until 2014. The data has been analyzed by using Eviews 8.0 to do descriptive, regression and correlation analysis. Using panel data method, the findings indicate that Size and Liquidity are significant in explaining the debt ratio of the construction sector companies in Malaysia and Size is the dominant factor that affects decision of capital structure while, Probability and Asset Tangibility has no significant relationship with Debt Ratios.

CHAPTER ONE

INTRODUCTION

1. OVERVIEW

Capital structure defines as a mixture of debt and equity that's use by companies to finance their daily operations, so that is crucial for companies to make a right decision for capital structure. According to finance terms capital structure is referred to as the ratio of different kinds of securities raised by a firm as long-term finance. The capital structure involves two decisions which are the type of securities to be issued are equity shares, preference shares and long term borrowings (Debentures). While the relative ratio of securities can be determined by process of capital gearing. On this basis, the companies are divided into two first is the highly geared companies, whose proportion of equity capitalization is small and low geared companies, those companies whose equity capital dominates total capitalization.

Besides that, capital structure decision also used to maximize value of a firm and any factors that could deviate such as bankruptcy and liquidation can reduce the firm's potential to make good capital structure decision. In order to achieve that objective the firms need to efficiently allocated its sources of capital so that it could reduce its costs through lowering its weighted cost of capital (Baharuddin, Khamis, Mahmood, & Dollah, 2011). This can be relate with the agency cost theory where the optimal capital can be obtained by minimize the costs arising from conflicts between the parties involved.