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THE DETERMINANTS OF CAPITAL STRUCTURE IN ELECTRICAL AND ELECTRONIC (E&E) MANUFACTURING SECTOR IN MALAYSIA

NUR ZAHRAATUL LAIL MD SUPAAT
FAUZIAH MOHAMAD YUNUS

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DECLARATION OF ORIGINAL WORK

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"DECLARATION OF ORIGINAL WORK"

We, NUR ZAHRAATUL LAIL BINTI MD SUPAAT and FAUZIAH BINTI MOHAMAD YUNUS

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- This work has not previously been accepted in substance for any degree, locally or overseas, and is not being currently submitted for this degree or any other degrees.
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ABSTRACT

The purpose of the present study is to determine the company characteristics that affect capital structure. This will clarify the amount of optimal debt and equity used in financing the firms' activity in electrical and electronic (E&E) manufacturing sector since a right choice can maximize shareholder's value. However, maximization of company value is not an easy task because it involves the choice of debt and equity securities in a balanced proportion keeping in view of different costs and benefits together with these securities. Financial distress and bankruptcy are the consequences that company should face when there is a wrong decision taken during the selection process of securities.

In this study, the determinants of capital structure in electrical and electronic (E&E) manufacturing sector are investigated with reference to major capital structure theories like Trade-off theory, Pecking Order theory and Agency cost theory. This study examines the debt and equity structure for the electrical and electronic companies listed in the Bursa Malaysia market during a fifteen-year period from 1997 to 2011. The sample data derived from the availability and continuity of published financial statements of 11 companies with a number of observations totaling 165.We use dependent variable of debt ratio and it is expressed by total debt divided by total assets while the independent variables are size, asset tangibility, profitability, liquidity and growth. The data was analyzed by using E-views version 7.0 to do descriptive statistics and regression analysis.

The overall results reveal that manufacturer of Malaysian electrical and electronic (E&E) companies on average used less debt financing in funding their business operations. They are capitalized more by equity for the past 15 years. Results also indicates that size of the firm and asset tangibility has a significant positive relationship in explaining variation in leverage of the E&E companies, while liquidity has a significant negative relationship with leverage. Profitability and growth are found to have an insignificant positive relationship with leverage level.

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CHAPTER TWO

LITERATURE REVIEW