

**THE DETERMINANTS OF CAPITAL STRUCTURE : A STUDY ON THE CONSTRUCTION  
COMPANIES IN MALAYSIA**



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## **5. Report**

### **5.1 Proposed Executive Summary**

The construction sector in Malaysia is one of the important sectors that contribute to the Gross Domestic Product (GDP). In 2007, it contributes 4.7% of the total growth in the GDP. To continuously be the main player in the market, the construction companies should aware of their combination of capital structure in maintaining the growth and profitability.

In this study, four independent variables; size, profitability, growth and assets tangibility, have been tested to determine the correlation of the variables, and to test which independent variable most influences the debt ratio, the dependent variable, of the construction companies. Using random effect of panel data method, the findings of the study show that three variables; size, growth and assets tangibility have a positive relationship with the debt ratio, while profitability has a negative effect on the debt ratio. From the results obtained, assets tangibility is the variable that has the most influence on the debt ratio.

## **5.2 Enhanced Executive Summary**

This study tests the capital structure for the construction companies listed in the Bursa Malaysia market during a seven-year period from 2001 to 2007. This research is based on secondary data derived from financial statements available in the Datastream database. In this study, dependent variable is the debt ratio and expressed by total debt divided by total assets while the independent variables are size, profitability, growth and assets tangibility. Using the panel data method, the findings show that size, growth and assets tangibility have a positively significant relationship to debt ratio, while the profitability of the construction companies has a significant negative effect on the debt ratio. The implication of this study is when the construction companies become bigger in terms of size and total assets, they will rely more on debt compared to equity in financing their activities. Future research may use more independent variables such as market perception, liquidity and share price in explaining debt. With a more depth analysis, a better understanding of determinants capital structure of construction companies will be realized.

Keywords: Capital structure, Debt Ratio, Debt, Equity, Construction

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