THE DETERMINATS OF CAPITAL STRUCTURE A COMPARISON STUDY BETWEEN FINANCIAL AND NON-FINANCIAL FIRMS IN MALAYSIA

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ABSTRACT

This paper is aims to investigate the differences in the capital structure determinants of a large sample between financial and non-financial firms incorporated in Malaysia. This study will focus on whether the traditional determinants of leverage of financial firms and non-financial firms, also known as a firm size, return on equity (ROE), effective tax rate (ETR), tangibility and liquidity. Besides that, this study also analyze and make a comparison between financial and non-financial firms. The sample in this study are collected from financial reports in the Datastream website only. The data will be relied on the quarterly from 2010 to 2015. Furthermore, the total number of observation is 36 which is 16 financial firms and another 16 for non-financial firms.

CHAPTER 1: INTRODUCTION

1.0 INTRODUCTION

This chapter will provide the overview and pre information regarding the background and rationality of conducting this research. There are several sections included starting with the background of the research, problem statement that lead to this study, research objective, significant study and lastly study review that will be discuss accordingly.

1.1 BACKGROUND OF THE RESEARCH

This study is focusing on the interdependency of Determinants of Capital Structure in financial and non-financial firms in Malaysia. As we can see, capital structure is playing an important role in the companies. Plus, capital is the most important and primary resource for the companies. This resources can be categorized into two groups, which are debt and equity. Debt is a contractual agreement where a company borrows some amount of money and repay with additional amount known as interest within a period of time. For example, companies issue bond in order to gain capital. Besides, equity arises when the company sells some of its ownership rights in order to gain to raising the funds for operation and investing activities. For example, companies issue Initial Public Offering (IPO) in order to raising the capital for firms.

Capital structure can be defined through many researches done. Such as:-

1. The capital structure can be categorized as a debt, equity or hybrid securities issued by the company (Brealey and Myers 1991).