



**CAPITAL STRUCTURE OF MALAYSIAN FOOD PRODUCING  
COMPANIES**

**SITI NUR IZZIANA BINTI HALIL**

**2013213312**

**Submitted in Partial Fulfillment  
Of the Requirement for the  
Bachelor of Business Administration (Hons)  
Islamic Banking**

**FACULTY OF BUSINESS MANAGEMENT  
UNIVERSITI TEKNOLOGI MARA  
SEGAMAT, JOHOR.**

**DECEMBER 2016**

## **ACKNOWLEDGEMENT**

All praises to Almighty ALLAH, the most merciful and the most benevolent for giving us the opportunities in completing this research paper. It would be impossible for us to spend time to complete this proposal without the grace and help of ALLAH SWT.

I am greatly indebted to Madam Zuraidah Ahmad whose excellence in supervision and plays a big role in inspired my work. Without her untiring encouragement, suggestions, ideas and comments throughout this study, this research might not able to be completed.

I would also take this opportunity to extend my appreciation to all those that assisted in completing this research proposal paper includes my beloved parent for their endless support, understanding and encouragement. I would like to say thank you to my fellow friends and all lecturers in UiTM Johor for sharing their opinions and experience in completing this research.

Last but not least, I would like to thank all the people who directly and indirectly involved in getting this research.

Thank you.

## TABLE OF CONTENTS

|   |     |
|---|-----|
| <b>DECLARATION OF ORIGINAL WORK</b> ..... | ii  |
| <b>LETTER OF SUBMISSION</b> .....         | iii |
| <b>ACKNOWLEDGEMENT</b> .....              | iv  |
| <b>TABLE OF CONTENTS</b> .....            | v   |
| <b>LIST OF TABLES</b> .....               | x   |
| <b>LIST OF FIGURE</b> .....               | xi  |
| <b>ABSTRACT</b> .....                     | xii |
| <b>CHAPTER 1 INTRODUCTION</b> .....       | 1   |
| 1.1 INTRODUCTION .....                    | 1   |
| 1.2 BACKGROUND OF THE STUDY .....         | 3   |
| 1.3 PROBLEM STATEMENT .....               | 5   |
| 1.4 RESEARCH QUESTION.....                | 7   |
| 1.4.1 MAIN RESEARCH QUESTION.....         | 7   |
| 1.4.2 SPECIFIC RESEARCH QUESTION .....    | 7   |
| 1.5 RESEARCH OBJECTIVE .....              | 7   |
| 1.5.1 MAIN RESEARCH OBJECTIVE .....       | 7   |
| 1.5.2 SPECIFIC RESEARCH OBJECTIVES.....   | 7   |
| 1.6 SIGNIFICANT OF THE STUDY .....        | 8   |

## **ABSTRACT**

The capital structure is an important part in decision making which determines the overall cost firm and also the market value of the firm. Finance manager needs to determine when it is needed for starting the firm operation or for additional fund to finance new projects because the capital structure is consist of debts and owners' equity. Every industry has different factors that influence the capital structure which is if there is a wrong decision on a matter related to financing, the firms may face financial distress and eventually to bankruptcy. There are many factors that affect the capital structure which also influence the performance of the firm itself, such as size, tangibility, growth, profitability, liquidity, asset structure, risk and others. The objective of this study isto identify the relationship between the capital structure and its determinants of capital structure of the food producing sector in Malaysia. The dependent variable is leverage and the independent variables consist of firm size, growth rate, profitability, liquidity and asset structure. The sample of data covers 6 companies in Malaysia from the food producers sector that listed on Bursa Malaysia which covers the period 2006-2015. Descriptive test, regression model, correlation, heterocedasticity, autocorrelation and multicollinearity were analysed by using STATA. The result of this study shows that profitability is significant with leverage. However, size, growth rate, profitability and asset structure are negatively related to the capital structure which indicates that size, growth rate, liquidity and asset structure were not an important variable of leverage in food producing industry. It also shows that food produces industry follow the pecking order theory.

## CHAPTER 1

### INTRODUCTION

#### 1.1 INTRODUCTION

During the year 1997 and 1998 financial crisis, there are a number of firms in Malaysia was affected where most the firms choose debt financing for their capital structure instead of equity financing (Nadaraja P. et al, 2011). Nowadays, rapid development of technology and the fast pace of globalization has caused the industries to compete with each other in the competitive environment where the uncertainties of the future are increased. Therefore, a firm needs an effective use of capital and risk management for long term survival.

Malaysian food producing industry plays an important role in contributing to the economy for this country. Food processing has been contributed about 10% to total manufacturing output due to the demand for food is increasing in line with the increasing number of population. Besides that, food producing industry also well organised and use modern technology, which able to attract investor from local and overseas, thus promotes their products to other countries.

The capital structure is a way for a firm finances its assets that is combination of debt and equity, which includes long term debt, common stock, preferred stock and retained earnings. The debt holder is a creditor which there is no long term commitment and favour in timely repayment of principal and interest amount whereas for equity, its