A STUDY ON CAPITAL STRUCTURE EFFICIENCY – MEASURING ON PROFIT BEFORE TAX

FAUZIAH BINTI PAUZI
2000567104

BACHELOR OF BUSINESS ADMINISTRATION WITH HONOURS (FINANCE)

FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
KOTA SAMARAHAN
SARAWAK

APRIL 2005

TABLE OF CONTENTS

AKNOWLEDGEMENT	iv
LIST OF TABLES	
LIST OF ABBREVIATIONS	vi
LIST OF DEFINITION OF TERMS	vii

CHAPTERS

1. INTRODUCTION		
1.1	Introduction	1
1.2	Background of study	2
1.3	Problem statement	3
1.4	The Purpose & Objectives of the study	4
1.5	Scope of the study	6
1.6	Limitations and constraint of the study	7
1.7	Significance of study	8
2. LITERATURE REVIEW		
2.2	Review related to capital structure	10
3. RESEARCH METHODOLOGY		
3.1	Data collection method	19
3.2	Modes of data collection	19
3.3	Sampling technique	19
3.4	Data analysis	20
4. DATA ANALYSIS AND FINDINGS		25

ABSTRACT

This study aimed to determine and analyze the affect of capital structure on company performance during the period of 1999 – 2003. Two models have been selected to test and analyze the performance (multiple regression analysis and hypothesis testing). The findings have revealed that owner equity and revenue are the most significant independent variables in the variation or changes in PBT.

Also this study is conducted to analyze the correlation level among the PBT with OE, LTD and revenue. The correlation among these variables for the selected companies from three sectors is examined for the period 1999 to 2003 to see the level of the correlation either strong or weak.

INTRODUCTION

An appropriate capital structure is a critical decision for any business organization. The decision is important not only because of the need to maximize return to various organizational constituencies, but also because of the impact such a decision has on an organization's ability to deal with its competitive environment. Question related to the choice of financing (debt versus equity) have increasingly gained importance in management research. Debt and equity are the two major classes of liabilities, with debt holders and equity holders representing the two types of investors in the firm.

LITERATURE REVIEW

1. **Make debt structure a pillar of your business planning**

   (Sandy Abbott, The President Of South Atlantic Enterprises, a broker-dealer specializing in debt transactions)

   Usually, a middle market company becomes involved with its capital structure out of necessity. Capital structure refers to the composition of the invested capital of a business ie the mix of debt and equity financing. Often, the debt is arranged in a haphazard way, with little regard for how the capital structure affects the company's performance. Because many middle market companies view their capital structure as simply a source of capital, companies do not include the capital structure as part of their strategic planning process. More specifically, by negotiating better terms for its debt or actively managing its capital structure, a company can reduce its cost of capital. [1]

2. **Capital structure tell you about a company**

   (Richard Entenmann)

   Each company has a capital structure. It is very important to understand what this is and to understand the capital structure for each company. Almost all companies try to make their sales and profit grow so the price of their stock goes up. In turn, before selling more products and increasing profits, a company usually needs to invest in itself by building new factories and offices, hiring more salespeople, buying more equipment to produce its products and the like. All this takes capital (or cash). Broadly speaking, companies can

[1] Sandy Abbott, The President Of South Atlantic Enterprises, a broker-dealer specializing in debt transaction. http://triangle.bizjournals.com/triangle/stories/2004/05/03/smallb4.html