DETERMINANTS OF CAPITAL STRUCTURE BASED ON CONSUMER PRODUCT SECTOR IN MALAYSIA

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The decisions of financial which are set by the management play an important role in determining the optimal capital structure. Capital structure decisions are important as it influences the shareholder's return, risk and the market value of the share. Capital structure is one of the most puzzling issues in corporate finance literature (Brounen & Eichholtz, 2001). An incorrect financial decision may lead to financial distress and bankruptcy (Eriotis, Vasiliou, & Neokomidi, 2007). Capital structure refers to the firm's financing through different sources like equity and debt. Equity can be in common and preferred equity while debt can be in short term and long term debt. Capital structure refers to the financial of the firm in order to finance their funds for investment from two sources. There are loan from bank which are called as debt and the other sources is issues their share to public which are called equity financing. Besides that, capital structure is a ratio of debt to equity. Ajao and Ema (2012) had stated that debt comprises of long term loan such as debenture and equity to finance it investment.

The capital structure plays an important role in order to maximize the consumers' products sectors and to earn higher profit. It depends to the level of leverage of the firm to provide higher or lower of capital structure. According to Modigliani and Miller (1958) suggest that in perfect capital market, strategies do not affect the value of the firm, but later they argue that firm value can be increased by changing the capital structure because of tax advantage of debt. Meanwhile, Boateng (2008) stated that a lot of factors can influence capital structure of a company. It means that the capital structures are important as it provide the way to smooth the management of the industries and also toward the company.

Capital structure can be divided into 3 theories. There are pecking order, agency cost and trade off theory. Pecking order theories are a theory where it focuses on asymmetrical information