



UNIVERSITI TEKNOLOGI MARA

**THE IMPACT OF CAPITAL
STRUCTURE ON FIRM
PERFORMANCE IN MALAYSIA**

AZRIENA FADZLIN BINTI HAMZAH

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ABSTRACT

The main objective of this study is to examine “The Impact of Capital Structure on Firm Performance in Malaysia”. From this study, profitability ratio measured by return on asset (ROA) of the company acted as the dependent variable, whereas other five factors contributing on the firm performance are short term debt, long term debt, size, sales growth and efficiency acted as the independent variable. This study covers two sectors in Malaysian equity market which are consumers and industrial sectors. The data was analyzed using panel data and this project paper had been tested for several numbers of tests. The two sectors selected firms for this study are Pensonic Holdings Berhad, Poh Kong Holdings Berhad, Bonia Corporation Berhad, Goldis Berhad, Jaycorp Berhad, Pelikan International Corporation Berhad categorized as consumer sector, Prestar Resources Berhad, Top Glove Corporation Bhd, Kian Joo Can Factory Berhad, Ajiya Berhad, Three-A Resources Berhad, DRB-Hicom Berhad categorized as industrial sector. As the results contribute in the defining of STD, LTD, GROWTHS and EFFICIENCY have a significant relation with ROA. However, the results founds that SIZE is not significant to ROA. Moreover, even though there is significant among the variables, the adjusted R-squared in this research shows a weak goodness of fit. It indicates a small contribution of impact towards ROA.

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CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

Alawwad, (2013) emphasize that capital structure may refer as the combination of debt and equity that has been used in financing the operation of a firm. Modigliani & Miller, H., (1958) in their research paper stated that capital structure has zero relevant to firm's value, since a perfect market condition characterized by a capital market with zero taxes, zero transaction cost and consistent expectation.

However, Modigliani & Miller, H., (1963) has made a correction upon their statement in their previous research paper Modigliani & Miller, H., (1958) and it stated that they considered the existence of corporate tax, thus suggesting the usage of leverage in huge amount in relation to increase their value as well as increase the benefit from the interest tax shield.

After modification research has been made, more than a few theories have been developed in defining the capital structure of a firm. These include the Pecking Order Theory, Static Tradeoff Theory, and the Agency Cost Theory. Alawwad, (2013) stated when the firm made a decision upon its source of capital, a sense of competitiveness among its peers has aroused. Hence, a firm must use the correct combination of debt and equity which will increase their profitability.

This paper focused on investigates the impact of capital structure on firm's performance that operates and listed in Bursa Malaysia. The structure of this paper is as follows. Chapter 2 will provide a summary of related literature and Chapter 3 addresses the data. Chapter 4 reports the finding obtained from the test conducted and finally, Chapter 5 discusses the conclusions and recommendations from the study.