BOARD CHARACTERISTICS AND CAPITAL STRUCTURE IN MALAYSIAN MARKET

By

AMIN ABDEL RAHMAN YOUSEF AUAIS

MASTER OF SCIENCE IN FINANCE

UNIVERSITI UTARA MALAYSIA

JUNE 2012

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A thesis submitted to the Postgraduate Studies Othman Yeop Abdullah Graduate School of Business

(Department of Finance)

In partial fulfillment of the requirements for the degree

Master of Science (Finance)

Universiti Utara Malaysia

By

AMIN ABDEL RAHMAN YOUSEF AUAIS

UNIVERSITI UTARA MALAYSIA

JUNE 2012

DECLARATION

I certify that the substance of this thesis has never been submitted for any degree and for any other qualifications.

I certify that any assistance received in preparing this thesis and all sources used have been acknowledged in this thesis.

AMIN ABDEL RAHMAN YOUSEF AUAIS

808811

Othman Yeop Abdullah Graduate School of Business

Universiti Utara Malaysia

06010 Sintok

Kedah

June, 2012

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ABSTRACT

Using fifty nine construction companies listed in Bursa Malaysia in 2010, this study investigates the impact of selected board of directors' characteristics on the level of leverage in a firm. Debt to equity is used as a measure of leverage. The characteristics on the board of directors that we examine are board size, CEO duality, directors' ownership, and ethnicity of directors. We employ two variables (profitability, and firm size) to control the relationships:

Findings show a significant interpretation of capital structure decision by these factors as a whole. Specifically, the outputs of the regression that we run show negative and significant relationships between director ownership, ethnicity of directors, and profitability of firm, and size of firm.

While we find that duality role of the CEO as a chairman has a negative but insignificant relationship with leverage, our sample shows that the companies which had CEO duality are few compared to those which had separated roles between a CEO and a chairman. However, there is a positive and significant correlation between debt level in the companies and size of board of directors.

Acknowledgment

In the name of Allah, the Most Gracious and Most Merciful

First of all, I praise the almighty Allah, who has given me the opportunity to study abroad, and finish a new stage of my life successfully by doing this research. I thank Allah for all his blessings and guidance, which have provided me with strength to face all the tribulations and trials in completing this part of my life.

I therefore send my love and gratitude to the ones who really have cared for me, and never stopped supporting me until I reached to where I am now; my parents, all my thanks and love for you both.

I want to thank my father, Abd Alrahman Auais, for everything that he has done for me. As a loving father, he has made life better and easier for me and my brothers. I send my deepest gratitude and affection to my mother Dina Awad. She is the source of power when things get harder. I have no suitable words that can fully describe my everlasting love to both of them.

I wish to express my deepest gratitude and heartfelt thanks to my supervisor, Associate Professor Norafifah Ahmad, for her discerning guidance, positive criticisms and advice- throughout the undertaking of this study. She had spent a lot of her precious time giving me valuable information, and corrections, to ensure better understanding, learning, and to achieve this study. Her excellent guidance and supervision have enriched me with higher quality of work. What is more, she was sympathetic with my other matters which gave me the strength and consolidated my effort in completing this thesis.

I would like to thank all my MSc (Finance) lecturers, for their outstanding finance knowledge during knowledge building time in this university.

Sincerely,

AMIN AUAIS ABEL RAHMAN AUAIS

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Abbreviation	Description
OECD	Organization for Economic Cooperation and Development
MBAM	the Master Builders Association Malaysia
CEO	Chief executive officer
MCCG	Malaysian Code of Corporate Governance
BOD	Board of directors
LP	Legal person
ROI	Return on investment
ROA	Return on assets
PBDIT	Profit before depreciation, interest, and taxes
UUM	Universiti Utara Malaysia
LEV	Leverage
BS	Board size
DL	CEO duality
MANGO	Managerial ownership
SZ	Size of firm

CHAPTER ONE

1.0 Introduction

The choices to finance a firm are known as capital structure, and it remains a big debate. Since many years ago, many studies have tried to understand the factors that make managers prefer borrowing (taking up debt) rather than issuing new equities or the opposite, and many other researchers have tried to determine whether there is an optimum proportion of debt and equity. Capital structure theories have therefore been established to give an understanding of when and why firms tend to increase or decrease their debt, and what factors might have impacted the capital structure choice.

Studies and theories have discussed factors that have a touched impact on capital structure, due to the importance of capital structure for any firm, small it is or big, new or old.

Capital structure decision reflects how management is effectual, intelligent to exploit opportunities, and capable to carry out a company's business with the best way of financing. Furthermore, capital structure is important as a criterion of winnings and losses as well. Where we know that more debt leads to more risk, in conjunction with higher ability to avoid expenses.

Within the many factors that affect the capital structure, researchers have suggested corporate governance as an effective issue to affect the debt proportion in a company. The importance of corporate governance exists since the decision of capital structure is decided by management and directors, who corporate

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