

**DETERMINANTS OF FINANCING CHOICES IN THE
MALAYSIAN PUBLIC LISTED COMPANIES**

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By

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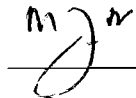

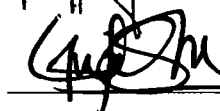
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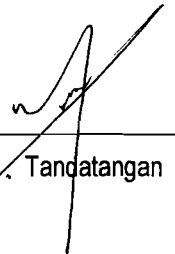
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ABSTRACT

This study provides evidence concerning the key determinant factors that influence the choice of securities issuance amongst Malaysian public listed companies for the period of 2000-2009. Two major types of securities namely long term debt and common equity is examined. With regards to the long term debt, the study segregates the debt instruments into Islamic debt (*sukuk*) and conventional debt while the equity offering focuses on the rights issue. In examining the securities choice between the securities, three different groups are used as samples, namely conventional debt and equity, Islamic debt and equity and all debt as well as equity are studied. Besides, this study also investigates the choice between Islamic debt and conventional debt. This is among the first study that investigates the choice of Islamic debt as compared to other financial product as Islamic and conventional products are offered alongside. Using logistic regressions to identify factors that influence choice of related financial instrument, results from this study suggests that firm specific variables play a more prominent role compared to governance variables in determining corporate choice. Specifically, four variables (domestic private fund ownership, firm size, issue size and adjusted run-up) are consistently significant in the all three debt-equity sample groups. With regards to governance variables, managerial ownership, Bumiputera ownership and board size are significant to some degree in certain sample groups. As for Islamic debt and conventional debt, only the board size and adjusted run-up can explain the difference between the two. In general, the results of this study contribute further to the existing literature by providing evidence that debt-equity choice in Malaysia fully support market timing hypothesis, and partial support agency and trade off theory.

Keywords: securities choice, debt-equity, capital structure, corporate governance

ABSTRAK

Kajian ini mengemukakan bukti berkaitan faktor penentu utama yang mempengaruhi pemilihan penerbitan sekuriti dalam kalangan syarikat tersenarai awam di Malaysia bagi tempoh 2000-2009. Dua jenis sekuriti utama, iaitu hutang jangka panjang dan ekuiti biasa telah diteliti. Hutang jangka panjang dikelaskan kepada hutang Islam (sukuk) dan hutang konvensional manakala penawaran ekuiti merujuk terbitan hak. Tiga kumpulan sampel yang berbeza, iaitu hutang konvensional dengan ekuiti, hutang Islam dengan ekuiti, dan semua hutang dengan ekuiti telah dikaji bagi meneliti pilihan sekuriti antara sekuriti yang ada. Selain itu, kajian ini juga meneliti pilihan pembiayaan antara hutang Islam dengan hutang konvensional. Kajian ini merupakan antara kajian awal yang menyelidik pilihan hutang Islam berbanding produk kewangan lain kerana produk kewangan Islam ditawarkan bersama-sama dengan produk kewangan konvensional. Berdasarkan regresi logistik yang mengenal pasti faktor yang mempengaruhi pilihan instrumen kewangan yang berkaitan, hasil kajian ini memperlihatkan bahawa pemboleh ubah spesifik firma memainkan peranan yang lebih penting berbanding pemboleh ubah tadbir urus. Empat pemboleh ubah (pemilikan dana swasta tempatan, saiz firma, saiz terbitan dan peningkatan harga saham terlaras) secara spesifiknya didapati signifikan secara konsisten sebagai pemboleh ubah yang penting dalam ketiga-tiga kumpulan sampel hutang-ekuiti. Bagi pemboleh ubah tadbir urus, pemilikan pengurus, pemilikan Bumiputera dan saiz lembaga pengarah adalah signifikan untuk beberapa tahap dalam kumpulan sampel yang tertentu. Bagi hutang Islam dan hutang konvensional, hanya saiz lembaga pengarah dan kenaikan harga saham terlaras yang dapat menjelaskan perbezaan antara kedua-dua sekuriti. Secara umumnya, hasil kajian ini menyumbang kepada kosa ilmu yang sedia ada dengan menyediakan bukti bahawa pilihan hutang-ekuiti di Malaysia menyokong penuh hipotesis masa pasaran dan menyokong secara separa teori agensi dan teori keseimbangan.

Kata kunci: pemilihan sekuriti, hutang-ekuiti, struktur modal, tadbir urus korporat

TABLE OF CONTENTS

CERTIFICATION OF THESIS	ii
PERMISSION TO USE	iii
ABSTRACT	iv
ABSTRAK	v
ACKNOWLEDGEMENT	vi
TABLE OF CONTENTS	vii
LIST OF TABLES	x
LIST OF FIGURES	xi
LIST OF ABBREVIATIONS	xii
CHAPTER ONE INTRODUCTION	1
1.0 Introduction	1
1.1 Background	1
1.2 Capital Raising Activities in Malaysia	4
1.3 The Malaysian Capital Market and Regulatory Requirements	9
1.3.1 The Malaysian Capital Markets	9
1.3.2 The Regulatory Framework	12
1.4 Development of Malaysian Bond Market	16
1.4.1 Financing through the Malaysian Bond Market	17
1.4.2 Differences between Islamic Debt and Conventional Debt	24
1.5 Development of Malaysian Equity Market	26
1.5.1 Financing through the Malaysian Stock Market	27
1.5.2 Rights Issue as a Popular Issuing Method	30
1.6 Some Distinguished Features of Malaysian Corporate Conventional, Islamic Bond and Equity	30
1.7 Problem Statement	31
1.8 Research Questions	39
1.9 Research Objectives	40
1.10 Significance of the Study	41

1.11	Scope of the Study.....	42
1.12	Organization of the Study.....	42
CHAPTER TWO LITERATURE REVIEW.....		44
2.0	Introduction.....	44
2.1	Theoretical Literature on Securities Choice.....	44
2.1.1	Irrelevance of the Financing Decision	44
2.1.2	Asymmetric Information Theory.....	45
2.1.3	Market Timing Theory.....	47
2.1.4	Trade off Theory.....	50
2.1.5	Agency Cost Theory	51
2.2	Existing Literature on Capital Structure and Islamic Financing	58
2.3	Empirical Evidence on Determinants of New Securities Issues and Security Choice..	60
2.3.1	Prior Studies on the Effect of Corporate Governance on Debt-Equity Choice . Leverage Level.....	61
2.3.2	Prior Empirical Studies on the Effect of Firms Characteristics on Debt-Equity Choice or Leverage Level	75
2.4	Conclusion	90
CHAPTER THREE HYPOTHESIS DEVELOPMENT AND RESEARCH FRAMEWORK		91
3.0	Introduction.....	91
3.1	Hypothesis Development and Variables Selection.....	92
3.1.1	Dependent Variable	92
3.1.2	Independent Variables.....	93
3.2	Research Framework	122
3.3	Research Method.....	122
3.4	Variables Definition and Measurement	124
3.4.1	Dependent Variable (SC).....	125
3.4.2	Independent Variables.....	125
3.4.3	Summary of variables	132
3.5	Sample Selection Procedure for Financing Choice Study	134
3.5.1	Information Sources.....	135
3.5.2	Population and Sample Selection	137
3.6	Summary.....	140

CHAPTER FOUR DATA ANALYSIS AND RESULTS	141
4.0 Introduction.....	141
4.1 Sample Description and Sample Statistics.....	141
4.2 Univariate Analysis	154
4.2.1 The Choice between Debt and Equity.....	156
4.2.2 The Choice between Conventional Debt and Equity	162
4.2.3 The Choice between Islamic Debt and Equity	168
4.2.4 The Choice between Islamic Debt and Conventional Debt.....	173
4.3 Multivariate Analysis	176
4.3.1 Correlation Analysis	177
4.3.2 Logistic Regression Assumption Diagnostics	182
4.3.3 Logistic Regression Model Result.....	189
4.4 Summary of Chapter.....	233
CHAPTER FIVE CONCLUSION AND RECOMMENDATION.....	234
5.0 Introduction.....	234
5.1 Overview of the Study	235
5.2 Summary of Main Findings	237
5.2.1 Findings Based On the Univariate Analyses	238
5.2.2 Findings Based on the Multivariate analyses	239
5.3 Contribution and Implication of Study	248
5.4 Limitation of Study.....	252
5.5 Recommendations for Further Research.....	252
REFERENCES	255
APPENDICES.....	281

LIST OF TABLES

Table		Page
1.1	No of Corporate Submission and Amount of Funds Raised by Types of Issues	6
1.2	Approved Private Debt Securities by SC from 2001-2009	8
1.3	Differences in Main Features of Securities	31
2.1	Summary of Literature on the Relationship of Corporate Governance and Debt-Equity Choice or Leverage Levels	71
2.2	Summary Of Literature on the Relationship of Firms Characteristics and Debt-Equity Choice or Leverage Levels	84
3.1	Summary of Variables and Measurements	133
3.2	Sample Selection Process	140
4.1	Profile of Sample Companies Classified according to Types of Board	143
4.2	Profile of Sample Companies Classified according to Bursa Malaysia Sectors	144
4.3	Profile of Sample Companies Classified according to Issuance Year and Issue Size.	146
4.4	Real GDP at Current Price and GDP Growth Rate In Malaysia	148
4.5	Profile of Sample Companies Classified According to Selected Ownership Structures	149
4.6	Descriptive Statistics for All Securities issuers in the Sample	152
4.7	Descriptive Analysis Result for Total Debt and Equity Sample	157
4.8	Descriptive Analysis and Univariate Test Result for Equity and Conventional Debt Sample	163
4.9	Descriptive Analysis and Univariate Test Result for Equity and Islamic Debt Sample	169
4.10	Descriptive Analysis and Univariate Test Result for Conventional Debt and Islamic Debt Sample	174
4.11	Pearson Correlation Results for Selected Variables in All Debt and Equity	178
4.12	Pearson Correlation Results for Selected Variables in Conventional Debt and Equity Sample	180
4.13	Pearson Correlation Results for Selected Variables in Islamic Debt and Equity Sample	181
4.14	Pearson Correlations Results for Selected Variables in Islamic Debt and Conventional Debt Sample	183
4.15	Collinearity Statistic Result- Test Of Multicollinearity	185
4.16	Residual Statistics-Test Of Outliers	186
4.17	Logistic Regression Results for All Debt and Equity (N=213)	192
4.18	Predictive Value of Logit Analysis For Model 6a in All Debt and Equity Sample	208
4.19	Logistic Regression Results for Conventional Debt and Equity (N=103)	210
4.20	Predictive Value of Logit Analysis For Model 3a in Conventional Debt and Equity Sample	214
4.21	Logistic Regression Result for Islamic Debt and Equity (N=163)	216
4.22	Predictive Value of Logit Analysis for Model 6a in Islamic Debt and Equity Sample	222
4.23	Logistic Regression Results for Islamic Debt and Conventional Debt (N=148)	225
4.24	Predictive Value of Logit Analysis for Model 6a in Conventional Debt and Islamic Debt Sample	232

LIST OF FIGURES

Figure		Page
1.1	Regulatory Framework of Malaysian capital market	13
1.2	Outstanding Malaysian Debt Securities and <i>Sukuk</i> (in RM billion) by Type of Issuers	18
1.3	Distribution of Corporate <i>Sukuk</i> according to Shariah Principles	21
3.1	Research Framework for Financing Choice	123

LIST OF ABBREVIATIONS

Accounting and Auditing Organization for Islamic Finance and Institutions	AAOIA
Bank Negara Malaysia	BNM
Capital market master plan	CMP
Capital market securities act	CMSA
Chief executive officer	CEO
Chief financial officer	CFO
Employee Provident Fund	EPF
Gulf Corporation Council	GCC
Initial public offering	IPO
International Organization of securities Commissions	IOSCO
Kuala Lumpur Interbank offering rate	KLIBOR
Malaysia International Islamic Financial Centre	MIFC
Perbadanan Nasional Berhad	PNB
Private debt securities	PDS
Principal Term and Condition	PTC
Labuan offshore financial services	LOFSA
New Economic policy	NEP
Securities Commission	SC
Securities Commission Act	SCA
Securities Industry Central Depositories Act	SICDA
Shariah Advisory council	SAC
Special Purpose Vehicle	SPV
Variance Inflation Factor	VIF

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CHAPTER ONE INTRODUCTION

1.0 Introduction

This chapter begins with Section 1.1 which presents the background of the study. Section 1.2 provides an overview of capital raising activities in Malaysian capital market. Discussion on an institutional background which Malaysian corporations operate in is written in Section 1.3. It elaborates an overview of Malaysian capital market and regulatory requirement in Section 1.3.1 and 1.3.2 respectively. Section 1.4 discusses the development of Malaysian bond market and Section 1.5 elaborates the development of Malaysian equity market. Some characteristics of Islamic debt, conventional debt and equity are highlighted in Section 1.6. Problem statement is elaborated in Section 1.7. This is followed by research questions and research objectives which are described in Section 1.8 and Section 1.9 respectively. Section 1.10 discusses the significance of the study while Section 1.11 covers the scope of the study. Finally, Section 1.12 illustrates the organization of the study.

1.1 Background

Firms' managers deal with many important and complex decisions in managing the operation of a firm. One crucial decision is related to implementing investment projects which require the need of financing. In financing decisions, managers are left

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