CAPITAL STRUCTURE AND FIRM PERFORMANCE DURING AND AFTER THE GLOBAL FINANCIAL CRISIS AMONG MALAYSIAN LISTED COMPANIES

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ABSTRAK

Kajian Kajian ini mengkaji hubungan antara struktur modal dan prestasi firma semasa dan selepas krisis kewangan global di kalangan syarikat tersenarai Malaysia. Kajian ini menggunakan pendekatan data panel pada sampel 278 syarikat bukan kewangan yang disenaraikan. Model regresi menunjukkan bahawa nisbah Tobin`s Q mempunyai hubungan positif yang signifikan dengan hutang jangka panjang dan pertumbuhan, kedua-dua semasa dan selepas krisis kewangan global. Di samping itu, hubungan negatif yang signifikan antara pulangan atas aset dan hutang jangka panjang, hutang jangka pendek, jumlah hutang, ditemui semasa dan selepas krisis kewangan. Hasil kajian menunjukkan bahawa syarikat-syarikat tersenarai Malaysia perlu melalikan diri mereka terhadap mana-mana krisis kewangan dengan mengekalkan nisbah hutang jangka pendek yang lebih rendah, kerana kebanyakan syarikat-syarikat bukan kewangan dibiayai dengan jumlah yang lebih tinggi daripada hutang jangka pendek dan bukannya hutang jangka panjang. Hubungan negatif yang signifikan antara prestasi dan hutang pembolehubah jangka panjang, hutang jangka pendek, dan jumlah hutang tidak menyokong "teori ketidatepatan struktur modal", kerana yang lebih rendah jumlah hutang dalam struktur modal yang lebih baik prestasi syarikat-syarikat yang disampel .

Kata Kunci: struktur Modal, krisis kewangan, prestasi, Malaysia, nisbah hutang

ABSTRACT

This research investigates the relationship between capital structure and firm performance during and after the global financial crisis among Malaysian listed companies. The research uses a panel data approach on a sample of 278 non-financial listed companies. The regression models reveal that Tobin`s Q ratio has a significant positive relationship with long term debt and growth, both during and after the global financial crisis. In addition, a significant negative relationship between return on assets and long term debt, short term debt, total debt, was found during and after the financial crisis. The findings imply that Malaysian listed companies should immunize themselves against any financial crisis by maintaining lower short-term debt ratio, because most of these non-financial companies are financed with a higher amount of short-term debt rather than long-term debt. The significant negative relationship between performance and the variables long term debt, short term debt, and total debt do not support the "capital structure irrelevancy theory", because the lower the amount of debt in the capital structure the better the performance of the sampled companies.

Keywords: Capital structure, financial crisis, performance, Malaysia, debt ratio

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LISTS OF ABBREVIATIONS

ATN	:	Asset Tangibility
BNM	:	Bank Negara Malaysia
DC	:	Debt to Capital
DE	:	Debt to Equity
DEMV	:	Debt to Equity Market Value
EBIT	:	Earnings before Interest and Tax
EPS	:	Earning Per Share
G	:	Growth
GDP	:	Gross Domestic Product
GFC	:	Global Financial Crisis
GM	:	Gross Margin
GPM	:	Gross Profit Margin
ISIS Malaysia	:	Institute of Strategic and International Studies
KSE	:	Karachi Stock Exchange
LDCE	:	Long Term Debt to Common Equity
LDTA	:	Long Term Debt to Total Assets
LLTA	:	Long Term Liabilities to Total Assets
MBVR	:	Market to Book Value Ratio
NPM	:	Net Profit Margin
NSM	:	Nairobi’s Stock Market
OLS	:	Ordinary Least Squares
OM	:	Operating Margin
OPR	:	Overnight Policy Rate

PCM	:	Price Cost Margins
REITS	:	Real Estate Investment Trusts
ROC	:	Return on Capital
ROE	:	Return on Equity
ROR	:	Rate of Returns
ROA	:	Return on Asset
SDTA	:	Short Term Debt to Total Asset
SLTA	:	Short Term Liabilities to Total Assets
SMEs	:	Small and Medium Enterprises
SPAC	:	Special Purpose Acquisition Company
SZ	:	Size
TDTA	:	Total Debt to Total Assets
TOT	:	Trade-off Theory
TQ	:	Tobin`s Q Ratio
TRD	:	Thomson Reuters Database
WACC	:	Weighted Average Cost of Capital
WRDS	:	Wharton Research Data Services

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Managers have to make financial decisions that are very crucial in determining the point of the optimal capital structure (i.e., balance between the cost of equity and the cost of debt). The importance of the decisions the managers make concerning the firm`s capital structure in order to be able to maximize the firm's value cannot be over emphasized, especially during financial crises. The seminal work of Modigliani and Miller in 1958 was an early proposition on capital structure. They argued that capital structure is irrelevant in determining the value of firms based on the assumptions that in a perfect competition in which there are no taxation levies, investors' expectations become homogenous and there are no costs of transactions. In these circumstances, capital structure is not relevant in evaluating the value of a company (Modigliani & Miller, 1958).

However, in 1963 Modigliani and Miller made a proposition that contradicts their irrelevancy proposition of capital structure. They considered the tax shield and suggested debt financing as a result of the tax-free advantage (shield). This contradicted the approach from the traditional point of view of Modigliani and Miller way back from 1958, because in the subsequent proposition an optimal capital mix (i.e. balance between debt and equity) is emphasized for a firm`s financial structure. According to Siddiqui and Shoaib (2011), obtaining an optimal capital mixture is not possible that is the point where equilibrium can be established between the cost of capital and cost of debt.

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