DETERMINANTS OF CAPITAL STRUCTURE: A COMPARATIVE STUDY IN MALAYSIA AND INDONESIA

BY

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ABSTRACT

The study investigates the determinants of the capital structure of 237 manufacturing firms listed in Malaysia and Indonesia stock exchange from 2005-2012. Ordinary least square and fixed effect model have been used to estimate the relationship between firm-specific determinants (firm size, profitability, tangibility, non-debt tax shields, liquidity and share price performance) and country-specific determinants (GDP growth, inflation and interest rate). The result suggests that firm-specific and country-specific determinant varies across Malaysia and Indonesia. The results show that firm size, tangibility, and non-debt tax shields are significantly and positively related to overall leverage and long-term leverage, while liquidity and share price performance are negatively related to leverage of Malaysian firms. For Indonesian firms, profitability, tangibility and non-debt tax shields are positively related to overall and long-term leverage, but firm size, liquidity and share price performance are negatively related to overall leverage and long-term leverage. Inflation is positively related to overall leverage under the fixed effect model, interest rate is negatively related to overall leverage, while GDP growth is negatively related with long-term leverage. The results also show that firm-specific factors play an important role in determining the capital structure before and after the 2008 financial crisis. The results of this study support the pecking order theory, the trade-off theory, market timing theory and the agency theory. The study has laid groundwork and detailed explanation about the determinants of capital structure in Malaysian and Indonesian manufacturing firms.

Keywords: Capital structure, Leverage, Financial crisis.
ABSTRAK


Kata Kunci: Struktur modal, Leveraj, Krisis kewangan.
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DEDICATION

I dedicated this research to my mother, Allahyarham Baar Dahir Ibrahim, “you are the inspiration and strength which keeps me going and continuously positive towards life challenges.”
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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>BNM</td>
<td>Bank Negara Malaysia</td>
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<tr>
<td>DOSM</td>
<td>Department of Statistics Malaysia</td>
</tr>
<tr>
<td>G-7</td>
<td>Group of seven</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>INF</td>
<td>Inflation</td>
</tr>
<tr>
<td>INT</td>
<td>Interest rate</td>
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<tr>
<td>PROF</td>
<td>Profitability</td>
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<td>NDTS</td>
<td>Non-debt tax shields</td>
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<td>LEV</td>
<td>Leverage</td>
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<tr>
<td>LLEV</td>
<td>Long-term leverage</td>
</tr>
<tr>
<td>LIQ</td>
<td>Liquidity</td>
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<tr>
<td>SPP</td>
<td>Share price performance</td>
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<tr>
<td>VIF</td>
<td>Variance inflation vector</td>
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<tr>
<td>OLEV</td>
<td>Overall leverage</td>
</tr>
<tr>
<td>US</td>
<td>United States</td>
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<tr>
<td>UK</td>
<td>United Kingdom</td>
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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter addresses and outlines the research agenda. It indicates the basis of the research. This chapter provides a clear snapshot on the background of the study, problem statement, research questions, research objectives, significance of the study, the scope of the study and lastly, organization of the study.

1.2 Background of the study

Over the past 40 years, the relationship between firm value and capital structure has been the most fascinating and debatable issue in the field of finance literature on both theories and empirical researches. Although company’s financing behavior can influence the firm value, factors that determine the capital structure are also an important issue to address.

Capital structure can be defined as the way company finances its investment, which is the mix of equity and debt. Although debt and equity may likely be different in nature, but they match together as company’s financing. The important thing is to emerge the best financing pattern that suit the business organization. Managers of the firm play a crucial role in selecting the debt to equity in order to maximize firm value. A wrong choice made by the management of the company may lead to financial distress and lastly to bankruptcy.
The contents of the thesis is for internal user only
REFERENCES


Camara, O. (2012). Capital Structure adjustment speed and Macroeconomic Conditions: US MNCs and DCs, 84(84).


