THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND FIRM’S CAPITAL STRUCTURE: MALAYSIAN EVIDENCE

By:

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In Partial Fulfillment of the Requirement for the Degree of Master of Science
(Finance)
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ABSTRACT

This study examines the relationships between corporate governance mechanisms (bankers on board, family-owned company, CEO duality, board size, and board composition), including control variables (firm size, firm age and firm’s profitability) with capital structure (debt-equity ratio) of listed companies in Malaysia. This study uses data from 60 largest listed companies, based on their market capitalization, from all sectors in Malaysia except financial institution and insurance companies. The time period covered is from 2000 to 2004, that is, after the announcement of the Malaysian Code of Corporate Governance in 2000. This study finds positive relationships between capital structure and bankers on board, family-owned company, board composition, and firm size. The relationships on family-owned company and firm size are significant, with both have strongly influencing the firms’ capital structure. Profitability has a negative relationship. Board size and firm age both have negative, but significant relationships with the firms’ capital structure. Generally, the existing literature on the relationships between corporate governance and capital structure has supported the findings of this study.
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Sincerely,

Muhammad Ashraf Bin Anuar.
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CHAPTER ONE

BACKGROUND OF THE STUDY

1.1 Introduction

Capital structure is how a corporation finances its assets with a mix of short-term debt, long-term debt, equity, or a mix of securities. In other words, it is how a firm develops a strategy in financing its growth and operation using different sources of financing.

Researchers have placed great concern on capital structure as one of the most important issues in corporate finance (see for example, Hasan & Butt (2009); Huang & Song (2006) and Saad (2010)). This concern arises due to the fact that the mix of financing sources, cost and availability of capital affects the decision making for the companies (Omet & Mashharawe, 2002). While considering investment strategy in the company, a basic understanding about the capital structure is necessary, particularly its level of gearing and a originating point to arrive at a conclusion.

There are a number of theories that have been forwarded to clarify the variation in capital structure for companies. Most of the theories argue that companies choose capital structure because they can verify better the costs and benefits pertaining to financial and equity financing of company, starting with capital structure irrelevance hypothesis as explained by Modigliani and Miller (1958), followed by financial
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BIBLIOGRAPHY


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