

**THE SIMULTANEITY OF FINANCING AND
INVESTMENT DECISIONS IN THE PRESENCE OF
CORPORATE GOVERNANCE FACTORS**

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ABSTRACT

This study investigates the interdependence between financing and investment decisions in the presence of corporate governance factors of three hundred non-financial companies listed on the Main Market of Bursa Malaysia. The sample is chosen randomly over a five-year period from 2007 to 2011. Using a panel data methodology, the regression models are derived based on the simultaneous equation modeling. Six factors of corporate governance mechanisms are identified: family ownership, government ownership, state ownership, managerial ownership, board size and board composition. This is among the earliest studies in Malaysia to consider simultaneity of financing and investment decisions by adopting 2SLS estimation technique. The major contributions of this study are: first, financing and investment decisions must be determined simultaneously. The results show that both investment and financing have positive impacts on each other. This positive effect is significantly stronger for firms with high-growth opportunities than those with low-growth opportunities. Second, government link investment companies (GLICs) affect leverage positively but affect investment opportunities negatively. For that reason, the government should monitor GLICs' investments as firms controlled by GLICs have lower investment opportunities. This is especially true for low-growth firms. In contrast to GLICs, state ownership leads to higher investment opportunities especially for low growth firms. Third, managers of high-growth firms are doing their job more effectively compared to those of low growth-firms in making investment decision. Fourth, independent directors do not play a significant role regarding investment policy especially for low growth firms. Finally, since profitability is significant for all financing models, the finding of this study supports pecking order theory.

Keywords: financing, investment, corporate governance, 2SLS

ABSTRAK

Kajian ini meneliti keberkaitan di antara keputusan pembiayaan dan pelaburan dengan faktor tadbir urus korporat terhadap tiga ratus buah syarikat bukan kewangan yang disenaraikan di pasaran utama Bursa Malaysia. Sampel kajian dipilih secara rawak untuk tempoh lima tahun dari 2007 hingga 2011. Kaedah data panel digunakan dalam kajian ini yang membolehkan model regresi dihasilkan melalui pemodelan persamaan serentak. Terdapat enam faktor tadbir urus korporat yang dikenal pasti iaitu pemilikan keluarga, pemilikan kerajaan, pemilikan negara, pemilikan pengurusan, saiz dan komposisi ahli lembaga pengarah. Kajian ini merupakan kajian yang terawal dilakukan di Malaysia yang melihat kepada keserentakan keputusan pembiayaan dan pelaburan menggunakan teknik kuasa dua terkecil dua peringkat (2SLS). Dapatan kajian menunjukkan keputusan pembiayaan dan pelaburan perlu dilakukan secara serentak. Hal ini kerana keputusan menunjukkan kedua-dua pelaburan dan pembiayaan mempunyai kesan positif antara satu sama lain. Kesan positif berkenaan lebih kuat bagi syarikat-syarikat yang menunjukkan peluang pertumbuhan yang tinggi berbanding syarikat yang mempunyai peluang pertumbuhan yang rendah. Seterusnya, Syarikat Pelaburan Berkaitan Kerajaan (GLIC) menunjukkan kesan positif terhadap leveraj tetapi turut memberikan kesan negatif terhadap nilai pelaburan. Oleh itu, kerajaan perlu memantau pelaburan GLIC kerana syarikat yang dikawal oleh GLIC mempunyai peluang pelaburan yang rendah terutama syarikat yang menunjukkan pertumbuhan yang rendah. Sebaliknya, pemilikan negeri membawa kepada peluang-peluang pelaburan yang lebih tinggi terutama bagi syarikat yang mempunyai pertumbuhan rendah. Dapatan seterusnya menunjukkan para pengurus di syarikat pertumbuhan tinggi melakukan tugas mereka dengan lebih berkesan dalam membuat keputusan pelaburan berbanding pengurus di syarikat pertumbuhan rendah. Selain itu, para pengarah bebas tidak memainkan peranan yang penting berhubung dasar pelaburan, khususnya untuk syarikat pertumbuhan rendah. Akhir sekali, kerana keuntungan adalah penting untuk semua model pembiayaan, maka dapatan kajian ini menyokong *pecking order theory*.

Kata Kunci: pembiayaan, pelaburan, tadbir urus korporat, 2SLS

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TABLE OF ABBREVIATIONS

IOS	Investment Opportunity Set
GDP	Growth Domestic Product
NPV	Net Present Value
OLS	Ordinary Least Square
2SLS	Two Stage Least Square
GMM	Generalized Method of Moments
GLICs	Government Linked-Investment Companies
GLCs	Government Linked Companies
MAS Berhad	Malaysia Airlines System Berhad
EPF	Employees Provident Fund
KNB	Khazanah Nasional Berhad
KWAP	Kumpulan Wang Amanah Pencen
LTAT	Lembaga Tabung Angkatan Tentera
LTH	Lembaga Tabung Haji
KKD	Kementerian Kewangan Diperbadankan
PNB	Permodalan Nasional Berhad
SOEs	State Owned Enterprises
3SLS	Three Stage Least Square
IV	Instrumental Variables
NDTS	Non-Debt Tax Shields
VIF	Variance Inflation Factor
FE	Fixed Effect
RE	Random Effect
LM	Breusch-Pagan Lagrangian Multiplier
CW	Cook-Weisberg
BP	Breusch-Pagan
EBIT	Earnings Before Interest and Tax
LTD	Long Term Debt

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter starts with section 1.1 which provides the background of the study. Section 1.2 presents problem statement. Section 1.3 discusses research questions. Research objectives are discussed in section 1.4. In section 1.5, the scope of the study is examined. The significance and contribution of the study are explained in section 1.6. This chapter ends with the structure of the thesis in section 1.7.

1.1 Background of the Study

The importance of corporate firms in generating a country's higher productivity and better economic growth is undeniable in today's globalization era. To play the role, the firms' managers must ensure that their corporate funds and resources are utilized efficiently so that they can be transformed into productive activities. Since managers must always adopt actions that work in favor of the interest of the shareholders, they must only invest in projects that promote greater productivity and efficiency. Such projects usually need considerable investments in current technologies, building development and promotion of products. It is the responsibility of the firm's corporate finance department to manage these financing and investment decisions.

There are many alternatives that can be employed by firms to fund or finance their investments. One of them is debt. Together with equity and retained earnings, debt is definitely among the top capital structure elements of the firm. Financial leverage is the common term used to describe the debt level employed to pay for firm assets and

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