THE EFFECT OF CAPITAL STRUCTURE ON FIRM’S PERFORMANCE: EVIDENCE FROM MALAYSIAN CONSTRUCTION INDUSTRY

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THE EFFECT OF CAPITAL STRUCTURE ON FIRM’S PERFORMANCE: EVIDENCE FROM MALAYSIAN CONSTRUCTION INDUSTRY

BY

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ABSTRACT

The main objective of this study is to examine the effect of capital structure on firm’s performance specifically focusing on the Malaysian construction firms. This study also attempted to highlight the theories of capital structure that closely related to the Malaysian construction firms. This study uses 21 sample firms listed on the Main Market of Bursa Malaysia with at least 10 years trading experience. The period of study is 7 years (2009-2015). A few series of regressions has been conducted and the final results are reported based on fixed effect model with robust standard error. The findings show that all variables; long term debt, total debt, size and sales growth have an effect on firm’s performance except the short term debt. The long term debt and sales growth have a positive relationship with firm’s performance. The results indicate that an increase in the long term debt and sales growth are associated with an increase in the firm's profitability. Meanwhile, the total debt and size show a negative and significant relationship with firm’s performance. Therefore, the negative relationship between debt and firm’s performance is fits the trade-off theory. The trade-off theory explains that overleverages firm’s capital structure will cause the difficulties to meet the interest payment obligation which later would jeopardise the firm’s value.

Keywords: capital structure, construction firms, firm’s performance, trade-off theory
ABSTRAK


Kata kunci: struktur modal, firma pembinaan, prestasi firma, teori trade-off
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# TABLE OF CONTENT

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>CERTIFICATION OF PROJECT PAPER</td>
<td>ii</td>
</tr>
<tr>
<td>PERMISSION TO USE</td>
<td>iii</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>iv</td>
</tr>
<tr>
<td>ABSTRAK</td>
<td>v</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>vi</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
<td>vii</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>x</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>xi</td>
</tr>
<tr>
<td>LIST OF APPENDICES</td>
<td>xi</td>
</tr>
<tr>
<td>LIST OF ABBREVIATIONS</td>
<td>xii</td>
</tr>
</tbody>
</table>

## CHAPTER ONE: INTRODUCTION

1.0 Introduction  
1.1 Background of the Study  
   1.1.1 Performance and Capital Structure  
   1.1.2 Malaysian Economic Outlook  
   1.1.3 Construction Industry in Malaysia  
1.2 Problem Statement  
1.3 Research Questions  
1.4 Research Objectives  
1.5 Significant of the Study  
1.6 Scope of the Study  
1.7 Organization of the Study
CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction 14

2.1 Theoretical Literature
   2.1.1 Modigliani and Miller (MM) 15
   2.1.2 Agency Cost Theory (ACT) 16
   2.1.3 Trade-off Theory (TOT) 16
   2.1.4 Pecking Order Theory (POT) 17

2.2 Empirical Literature 18

CHAPTER THREE: METHODOLOGY

3.0 Introduction 23

3.1 Sample and Data Collection 23

3.2 Variables
   3.2.1 Dependent Variable 24
   3.2.2 Independent Variables 25
   3.2.3 Control Variables 27

3.3 Expected Results 28

3.4 Theoretical Framework 29

3.5 Hypotheses 30

3.6 Model 30

3.7 Methods of Estimation
   3.7.1 Pooled Ordinary Least Square (Pooled OLS) 32
   3.7.2 Fixed Effect (FE) 33
   3.7.3 Random Effect (RE) 34
   3.7.4 Breusch and Pagan Lagrangian Multiplier Test 35
   and Hausman Test
   3.7.5 Fixed Effect with Robust Standard Error (FE Robust) 36

3.8 Diagnostic Tests 37
CHAPTER FOUR: FINDINGS AND DISCUSSIONS

4.0 Introduction 38
4.1 Descriptive Statistic 38
4.2 Correlation Matrices 39
4.3 Regression Analysis
   4.3.1 Pooled OLS 40
   4.3.2 Random Effect Model 41
   4.3.3 Fixed Effect Model 42
   4.3.4 Breusch and Pagan Lagrangian Multiplier Test 43
       and Hausman Test
4.4 Post-estimation Diagnostic Tests 44
4.5 Fixed Effect with Robust Standard Error 45

CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

5.0 Introduction 51
5.1 Summary 51
5.2 Limitations and Recommendations 53

REFERENCES 55-58

APPENDICES 59-83
## LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1.1</td>
<td>GDP Contribution by Industry in 2014</td>
<td>7</td>
</tr>
<tr>
<td>Table 1.2</td>
<td>GDP Contributors in 2015 (4th quarter)</td>
<td>8</td>
</tr>
<tr>
<td>Table 3.1</td>
<td>List of Variables, Proxies and Expected Result</td>
<td>28</td>
</tr>
<tr>
<td>Table 4.1</td>
<td>Descriptive Statistics</td>
<td>38</td>
</tr>
<tr>
<td>Table 4.2</td>
<td>Correlation Matrices</td>
<td>40</td>
</tr>
<tr>
<td>Table 4.3</td>
<td>Pooled OLS Model</td>
<td>41</td>
</tr>
<tr>
<td>Table 4.4</td>
<td>Random Effect Model</td>
<td>42</td>
</tr>
<tr>
<td>Table 4.5</td>
<td>Fixed Effect Model</td>
<td>43</td>
</tr>
<tr>
<td>Table 4.6</td>
<td>Breusch and Pagan LM Test and Hausman Test</td>
<td>44</td>
</tr>
<tr>
<td>Table 4.7</td>
<td>Diagnostic Test</td>
<td>44</td>
</tr>
<tr>
<td>Table 4.8</td>
<td>Robust Fixed Effect Model</td>
<td>46</td>
</tr>
<tr>
<td>Table 4.9</td>
<td>Results of Panel Data Analysis</td>
<td>49</td>
</tr>
</tbody>
</table>
LIST OF FIGURES

Figure 1.1 Malaysian GDP for 2011 till 2015 6
Figure 3.1 Theoretical Framework 29

LIST OF APPENDICES

A  List of Construction Firms 61
B  Raw Data 61
C  Article Review 66
D  Stata Output 78
**LIST OF ABBREVIATIONS**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>Return on assets</td>
</tr>
<tr>
<td>STD</td>
<td>Short term debt</td>
</tr>
<tr>
<td>LTD</td>
<td>Long term debt</td>
</tr>
<tr>
<td>TD</td>
<td>Total debt</td>
</tr>
<tr>
<td>TOT</td>
<td>Trade-off theory</td>
</tr>
<tr>
<td>POT</td>
<td>Pecking order theory</td>
</tr>
<tr>
<td>ACT</td>
<td>Agency cost theory</td>
</tr>
<tr>
<td>MM</td>
<td>Modigliani and Miller</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GST</td>
<td>Good and Service Tax</td>
</tr>
<tr>
<td>CIDB</td>
<td>Construction Industry Development Board</td>
</tr>
<tr>
<td>BNM</td>
<td>Bank Negara Malaysia</td>
</tr>
</tbody>
</table>
CHAPTER ONE

INTRODUCTION

1.0 Introduction

Studies on capital structure are one of the most critical areas in academia as well as in industries around the globe. Generally, capital structure is referred to the firm’s financing decision that used to support the firm’s daily operation. In other words, capital structure is firm’s capital that primarily obtained either from debt or equity. There are few sources of debt that preferably used such as bonds and banks borrowing. Meanwhile, sources of equity include common stocks and preferred stocks. As the firm expands it needs more capital in order to support the expansion. Thus, financing decision plays an important role in helping a firm to achieve better performance.

Since firm’s financial decision is directly related to its risk and return, the firm has to make sure that it chooses the right capital structure. Implementing immature capital structure leads to high cost of capital, which decreases the firm’s value. On the contrary, choosing the right capital structure increases the firm’s value. Later, it helps firm to deal with the competitive environment (Ahmad, Abdullah & Roslan, 2012).

Many modern theories related to the capital structure have been introduced by different scholars like Modigliani and Miller (1958), Modigliani and Miller II (1968), agency cost theory (1976), trade-off theory (1977) and pecking order
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REFERENCES:


