THE DETERMINANTS OF FINANCIAL STRUCTURE OF FIRMS
IN THE KUALA LUMPUR STOCK EXCHANGE

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ABSTRACT

This paper analyses some of the factors that may have an influence on the firm's financial structure. It is an update as well as an extension of some of the empirical works on financial structure that has been conducted in Malaysia.

Two possible measures of gearing ratios, TD/TA and LTD/TA are regressed against three independent variables, namely: return on equity, operating leverage and beta. The regression results are then analysed to determine if there is a significant relationship between gearing ratios and the independent variables.

This study is different from other studies as only firms whose principal activities are manufacturing are tested. Therefore, only firms from the consumer and industrial products were included in the sample. This is to avoid the influence of industrial types on the financial structure of firms.

The findings show that the pecking order hypothesis is observed in the manufacturing sectors. It also confirms that firms with high operating leverage use more long-term debts. Lastly, there is a statistically significant positive relationship between gearing and beta.
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TABLE OF CONTENTS

ABSTRACT............................................................................................................. i
ACKNOWLEDGEMENTS......................................................................................... ii
TABLE OF CONTENTS......................................................................................... iii
LIST OF TABLES.................................................................................................... iv

CHAPTER ONE - INTRODUCTION

1.1 Theoretical Background................................................................. 1
  1.1.1 Types of Funds................................................................. 1
  1.1.2 Financial Structure......................................................... 1
  1.1.3 Financial Leverage.......................................................... 2
  1.1.4 Operating Leverage......................................................... 3
  1.1.5 Role of Beta................................................................. 4
1.2 Objective of The Study............................................................... 5
1.3 Significance of The Study........................................................... 5
1.4 Organisation of Study............................................................... 5

CHAPTER TWO - LITERATURE REVIEW

2.1 Types of Studies................................................................. 7
2.2 Titman and Wessels Findings.................................................. 8
2.3 Results of Other Studies.......................................................... 9
  2.3.1 Collateral Value of Asset............................................. 9
2.3.2 Non-debt Tax Shields.......................... 11
2.3.3 Growth........................................... 11
2.3.4 Uniqueness....................................... 12
2.3.5 Volatility.......................................... 12
2.3.6 Profitability....................................... 13
2.3.7 Operating Leverage.............................. 13
2.3.8 Industry Classification.......................... 14
2.3.9 Size.................................................. 15
2.3.10 Beta.................................................. 15
2.4 This Study............................................. 16

CHAPTER THREE - METHODOLOGY
3.1 Data Source.......................................... 17
3.2 Sample Size.......................................... 17
3.3 Time Frame........................................... 18
3.4 Definition of Variables............................ 19
3.5 Data Analysis......................................... 22
3.6 Hypothesis Testing................................... 23

CHAPTER FOUR - THE FINDINGS
4.1 Gearing Ratio........................................ 24
4.2 Mean Return on Equity............................. 24
4.3 Mean Operating Leverage........................... 26
4.4 Blume's Adjusted Beta.............................. 26
4.5 Regression Analysis................................ 28
  4.5.1 Capital Structure And Return on Equity...... 28
  4.5.2 Capital Structure And Operating Leverage... 33
CHAPTER FIVE - CONCLUDING REMARKS AND RECOMMENDATIONS

5.1 Summary................................................................. 37
5.2 Shortcomings.......................................................... 38
5.3 Suggestions for Future Research............................... 39

References........................................................................ 41
# LIST OF TABLES

<table>
<thead>
<tr>
<th>TABLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Summary of the mean gearing measures, mean return on equity, mean operating leverage of sample firms</td>
</tr>
<tr>
<td>2</td>
<td>Blume's adjusted beta of sample firms</td>
</tr>
<tr>
<td>3</td>
<td>Summary statistic of mean gearing measures, mean return on equity, mean operating leverage and Blume's beta of sample firms</td>
</tr>
<tr>
<td>4</td>
<td>Regression of two measures of gearing on return on equity of sample firms</td>
</tr>
<tr>
<td>5</td>
<td>Regression of two measures of gearing on operating leverage of sample firms</td>
</tr>
<tr>
<td>6</td>
<td>Regression of two measures of gearing on systematic risk of sample firms</td>
</tr>
</tbody>
</table>