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.