The Effect Of Capital Structure Decisions
On Company Performance in Malaysia

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ABSTRACT

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THE EFFECT OF CAPITAL STRUCTURE DECISIONS ON COMPANY PERFORMANCE IN MALAYSIA

By
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MARCH 2005

Supervisor : Professor Madya Dr. M. Fazilah Abdul Samad
Faculty : Business and Accountancy

Early theories on capital structure decisions had suggested that debt policy does not have any effects on the value of the firm. Others found that debt policy does matter because of market imperfections such as corporate taxes, bankruptcy costs and agency costs. These studies have found that capital structure is negatively correlated to company performance. An increase in leverage is said to decrease the return of a company and vice versa. Therefore, it is the objective of this study to determine whether the capital structure has significant relationship with company performance in Malaysia; and the focus will be on the construction sector. Also, this study investigates whether firm size has any effect on company performance. This study is based on 35 companies listed on the construction sector of Bursa Malaysia Main Board. The data used are annual revenue, net profits, shareholder’s equity and long-term debt for the period of 1999 through 2003. Company performance is measured by Return on Equity (ROE); capital structure by long term debt ratio and firm size is approximated by company annual revenue. Linear regression analysis is applied in this study to examine the effect of capital structure and firm size on company performance.
Significant negative relationships is found between capital structure and company performance; but no significant relationships between firm size and company performance in this study for the period of 1999 to 2003. This significant relationships is very important to the construction industry in Malaysia; especially in management decisions with regards to financing and leverage.
**ABSTRAK**

Abstrak kertas projek yang dibentangkan kepada Senat, Universiti Malaya sebagai sebahagian daripada keperluan untuk Ijazah Sarjana Pentadbiran Perniagaan

**KAJIAN PENGARUH KEPUTUSAN STRUKTUR KAPITA TERNADAP KEUNTUNGAN FIRMA DI MALAYSIA**

Oleh

**WONG KOE HOONG**

MAC 2005

Supervisor : Professor Madya Dr. M. Fazilah Abdul Samad

Fakulti : Perniagaan dan Perakaunan


diukur dengan 'long term debt ratio' dan saiz firma diukur dengan 'annual revenue'.

'Linear regression analysis' telah digunakan dalam kajian ini untuk menentukan kaitan di
antara struktur kapita dan saiz firma ke atas keuntungan firma.

Dalam kajian ini, struktur kapita didapati mempunyai kaitan negatif terhadap keuntungan
firma, tetapi tidak terdapat kaitan di antara saiz firma dengan keuntungan firma untuk
jangka masa 1999 hingga 2003. Kesan negatif ini adalah mustahak kepada sektor
pembangunan di Malaysia, terutama dalam membuat keputusan pengurusan.
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Last but not least, I would like to thank all my lecturers, staffs of MBA office and fellow friends for assisting and motivating me in one way or another until the completion of my MBA program.
DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citation that have been duly acknowledged. I also declare it has not been previously or concurrently submitted for any other degree at University of Malaya or other institutions.

WONG KOE HOONG
MARCH 2005
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<td>KLCI</td>
<td>Kuala Lumpur Composite Index</td>
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<td>CS</td>
<td>Capital Structure</td>
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<td>LTDR</td>
<td>Long Term Debt Ratio</td>
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<td>FS</td>
<td>Firm Size</td>
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<td>REV</td>
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