CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY AND CONCLUSIONS

This study found that the total debt to total asset ratios were significantly different across industry groups during the pre-crisis years. Its findings on the stability of capital structure over time was mixed with some sectors showing significant differences over time while the others did not.

The share of long-term debt in total financing differed across industries but was generally stable over time within the same sector. The financing patterns of KLSE companies showed a tendency towards increase in the usage of long-term debt over the period of study. The findings do not show that short-term debt was excessively used for long-term capital requirements prior to the crisis.

The evidence on whether the seven KLSE sectors examined matched the financing of their fixed assets with long-term debt was not unanimous. However, evidence showed that long-term debt and equity were adequate to finance fixed assets.

The empirical findings in this study on the whole showed that using less debt was less risky and produced better performances. However, if we look at the mean values of performance ratios used on a year-to-year basis, we cannot unanimously reject the null hypothesis that the mean ratios are not significantly different across quartiles that group the sample companies according to their total debt to total asset ratios.
5.2 SUGGESTIONS FOR ADDITIONAL RESEARCH

Research can be done on each KLSE sector in more detail by including all the companies which make up a sector for each year studied and dividing them into sub-groups according to their principal activities. This would reduce the variances among companies that make up the groups that are empirically tested.

Further research to examine the influence of factors such as profitability, tangibility of assets and growth on both capital structure and the mixture of long and short-term debt can also be done to throw more light on the determinants of capital structure and financing patterns of Malaysian companies over the past decade.

Instead of analysing leverage effects on financial performances of companies by industry sectors, which are made up of both large and smaller companies, we can divide companies according to their sizes into different groups and then further sub-divide these groups into quartiles according to company debt ratios. Inter-quartile performances can then be compared so that we can see the effect of leverage on performances of companies in different 'size-groups'.

5.3 IMPLICATIONS

The findings in this study provides insight into capital structure practices in Malaysia over the past 10 years. It will help enlighten financial managers that more borrowings need not result in higher profitability as suggested by conventional finance theory. Banks have to be more careful when processing loan applications to avoid lending to companies which are not financially sound. The results of this study will also enlighten investors to the fact that KLSE counters are often mispriced.