CAPITAL STRUCTURE DETERMINANTS: EVIDENCE FROM SURVIVING LISTED COMPANIES IN MALAYSIA

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CAPITAL STRUCTURE DETERMINANTS: EVIDENCE FROM SURVIVING LISTED COMPANIES IN MALAYSIA

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PENENTU STRUKTUR MODAL: BUKTI DARIPADA SYARIKAT TERSENARAI YANG MASIH BEROPERASI DI MALAYSIA

ABSTRAK

Penyelidikan tesis ini mengaji hubungan antara penentu struktur modal dan leveraj bagi syarikat tersenarai keluarga dan syarikat bukan keluarga yang masih beroperasi di Malaysia. Sebanyak 474 syarikat tersenarai di Bursa Malaysia pada tarikh 31 Disember 1999, tempoh kajian diambil dari tahun 2000 hingga 2015, selama 16 tahun. Selepas menyingkirkan syarikat latar belakang kewangan, PN4, PN17, syarikat yang dimansuhkan, gagal beroperasi dan informasi tidak sempurna, akhirnya terdapat 151 syarikat tersenarai yang masih beroperasi, antaranya 72 syarikat keluarga dan 79 syarikat bukan keluarga. Teknik-teknik ekonomi seperti Pearson correlation matrix, panel data analysis (fixed effects model), independent samples t-test telah digunakan. Kesemua data sekunder telah diambil dari Datastream dan juga laporan kewangan syarikat tersenarai. Penyelidikan ini mengunakan empat pembolehubah bebas, seperti ketajaman aset (TANG), peluang pertumbuhan (GROWTH), keuntungan (PROF) dan kecairan (LIQ), dan lagi satu pembolehubah kawalan iaitu saiz firma (SIZE). Nisbah hutang jangka pendek, nisbah hutang jangka panjang, dan nisbah hutang adalah pembolehubah bergantung dalam kajian. Nilai purata levaraj bagi syarikat keluarga yang masih beroperasi adalah sedikit rendah daripada syarikat bukan keluarga, menunjukan bahawa syarikat keluarga kurang menggunakan hutang secara berbandingan. Berdasarkan statistik nilai min, ia melaporkan bahawa syarikat bukan keluarga yang masih beroperasi lebih baik sedikit daripada syarikat keluarga dari segi ketajaman aset, peluang pertumbuhan dan keuntungan. Tetapi, kecairan dan saiz firma bagi syarikat keluarga adalah lebih besar daripada syarikat bukan keluarga.

Walaupun begitu, keputusan empirikal menunjukkan bahawa, tiada perbezaan leveraj bagi syarikat keluarga dan syarikat bukan keluarga yang masih beroperasi. Namun demikian, kajian ini membuktikan bahawa prestasi syarikat bukan keluarga adalah sedikit lebih baik daripada syarikat keluarga dengan perbezaan ketara dari segi peluang pertumbuhan dan keuntungan. Secara keseluruhannya, semua pembolehubah bebas adalah signifikan kepada nisbah hutang untuk syarikat keluarga dan syarikat bukan keluarga yang masih beroperasi, kecuali peluang pertumbuhan bagi syarikat bukan keluarga. Kesimpulannya, syarikat tersenarai yang masih beroperasi didapati lebih cenderung menggunakan sumber dalaman sebagai pilihan keutamaan semasa membuat keputusan kewangan levaraj untuk memastikan perniagaan terus beroperasi, sokong teori pecking order. Tambahan pula, keputusan kajian juga mendedahkan syarikat yang masih beroperasi menpunyai aset cair yang mencukupi, ia boleh digunakan untuk perniagaan kewangan aktiviti dan menpunyai taraf hutang rendah. Oleh itu, syarikat tersenarai yang masih beroperasi di Malaysia berupaya menguruskan leveraj secara bijak bagi memastikan syarikat terus beroperasi dan wujud sepanjang masa.

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ABSTRACT

This study examined the relationship between the determinants of capital structure and financial leverage of the surviving listed family and surviving non-family ownership of public listed companies in Malaysia. There are 474 publicly listed companies in the the Bursa Malaysia as at 31 December 1999, a longitudinal period of study was examined from year 2000 to 2015, total 16 years. After deducted finance related companies, those fall in PN4, PN17, delisted, non-survived and incomplete data, final samples are 151 surviving listed companies, consist of 72 surviving family and 79 surviving non-family listed companies. The econometric techniques, Pearson correlation matrix, panel data analysis (fixed effects model) and independent samples t-test have been applied. Financial accounting data as secondary data were derived from Datastream and annual report. This study applied four independent variables, namely asset tangibility (TANG), growth opportunities (GROWTH), profitability (PROF) and liquidity (LIQ), and one control variable firm size (SIZE). The short term debt ratio (STDR), long term debt ratio (LTDR) and debt ratio (DR) are dependent variables. The average mean value of leverages for the surviving family firms are slightly lower than surviving non-family firms, indicating that surviving family firms use lower debt as comparison. Based on the mean value statistic, it reported that surviving non-family companies perform slightly better than surviving family companies in term of asset tangibility, growth opportunities and profitability. However, surviving family companies’ liquidity and firm size are slightly larger than non-family companies. Regardless of that, the empirical result shows, there are no

significant difference on leverages between the surviving family and non family firms. Nonetheless, the study has proved that surviving non-family firms performed slightly better than surviving family firms with a significant differences in term of growth opportunities and profitability. Overall, all determinants are significant to the debt ratio for surviving family and non-family companies, except growth opportunities for surviving non-family companies. In a nutshell, surviving family and non-family companies prefer to use internal sources as main priority for financial leverage decisions to sustain its business, supported pecking order theory. Furthermore, the results revealed that surviving companies have sufficient liquid assets, can utilize these funds to finance business activities and have lower leverage. Hence, surviving listed companies in Malaysia tend to manage its leverage wisely for the survival and longevity of business operation in long run.

CHAPTER 1

INTRODUCTION

1.0 Introduction

This session reflects an overall view of the research sequence. It begins with background of the capital structure determinants studies, problem statement, followed-by the purpose of this research analysis, research issues, the implication of research, and lastly, it accompanied by the three sections, which is the possibilities of the research, the clarification of key terms and the organization of this master dissertation study.

The firm's preference of an ideal capital structure decision remains one of the large unresolved issues in the financial economics literature. The capital structure has commonly determined by the original theory which developed by Modigliani and Miller (1958). As reported by Brealey, Myers and Allen (2006), capital structure is defined as the company's amalgamation of equity financing and debts, with the aim of financing its company's investment (Myers, 2001; Pratomo and Ismail, 2006). Nevertheless, the capital structure still considered as the relative amalgamation of the debt and the equity securities in long term of the firm's financial framework (Megginson, 1997).

In fact, the capital structure, working capital adequacy and asset performance are well known investment quality measurements, which can be used to evaluate the strength of a company's balance sheet. Commonly, most of the investors can analyze the balance sheet as one's of the main considerations before making any investment decision to invest in listed company's shares. Generally, the indicator of the ratio for debt and equity to support company's assets are considered a very significant and powerful indicator key for accessing the balance sheet strength. As a result, most of the investors shall prefer a capital structure appertains, of low debt and high equity leverage, whereby a positive signal for a very good investment quality especially in return with a positive stock market portfolio.

Nowadays, family business ownership whether listed or not listed companies have becoming a very significant element in the corporate economy, played a vital role in a country contribution and become popular topic in the research study. It is mainly due to the proven track recorded performance of the established family companies throughout a long period of time. Still, most of the successful and outstanding companies have a family ownership background which being noticed and acknowledged by scholars and practitioners. In the real world, the excellent performance, outstanding, surviving and sustainable family background companies can be discovered, for example company like IKEA, Mitsubishi, Wal-Mart, Genting, IOI, YTL and so on, owned, founded and operated by family member background, which had higher competitive capabilities in the business world.

Many academic articles demonstrated that Asia family background companies had a greater performance in the following countries, particularly Hong Kong, Singapore, China, Australia and Taiwan (La Porta, Lopez-De-Silanes and Shleifer, 1999; Chen, 2000; Filatotchev, Lien and Piesse, 2005). As for Malaysia, there are several family business companies with a remarkable performance, well-known, historical and yet sustainable family background companies are Kuok Hock

Nien (Kuok Brothers’s group), Lim Goh Thay (Genting’s group), Quek Leng Chan (Hong Leong group), Yeoh Tiong Lay (YTL), Lee Shin Ching (IOI group), had contribute to the development of the Malaysia economy. Therefore, family-based companies are ever since dominating the corporate world with established, outstanding and sustainable performance in each country respectively (Ibrahim, 2011).

1.1 Background of The Study

First and foremost, the outcomes regarding the credit expansion had been massively discussed and are considered as a relatively crucial subject. In addition, a great deal of companies had encountered the complexity of capital structures for the last 4 decades and however still ineffectively to sustain adequate liquidity point level for continuation survival in business market. In the finance perspectives, capital structure is the essential method how firm's asset financed by applying the combination of debt or equity amongst them (San and Heng, 2011).

Alternatively, the financial manager’s responsibilities will be vital in order to choose the most optimal capital structure level in an effort to sustain in the business world. Additionally, their main aim is to decrease the financial costing and attempt to increase the shareholder's wealth through attaining the optimal ratio of debt-to-equity. Hence, it can lessen the risk occur in the company’s long term financing. Therefore, in order to sustain a vigorous financing level and while protecting the corporate shareholder’s interests, it is crucial that financial managers made a prudent and prompt decision (Mahmood, Affandi, Baharuddin, Mohamad and Shamsudin, 2011).

The intrinsic merit of the corporation is enumerated by considering the expected cash flows generated from the corporate's acquired assets. These indirectly establish that the importance of debt and equity combination enables the companies to maintain a strong and stable financial situation. There is no ideal debt to equity ratio proportion as it is diverse and varies according to the industry complexity, the core value of the business and the intensity business development in different country.

In contrast, the capital structure core decisions mainly target to maximize the shareholder's interest and maintain the corporation utmost value. Therefore, any movement in the business activities such as liquidity, bankruptcy cost or other financial distress, will pull the corporation further away from their main goal. As a result, if there's some major misjudgment occurs, there will be negative outcomes that directly scattered the corporations' activities. In fact, commonly the company needs to manage and relocate wisely with the company source of capital which may eventually minimize the cost by pull down their financial capital cost. As a result, it is very important in today's financial management to achieve the best, top and good capital structure decision.

Capital structure topic is massively discussed after the release of Modigliani and Miller (MM) theory, capital structure has become an accepted study topic in finance. Countless academicians have administered the studies on the determinants of capital structure, particularly in developed and developing countries, such as Libya, Ghana, Saudi, Egypt and Pakistan (Buferna, Bangassa and Hodgkinson, 2005; Amidu, 2007; Al-Ajmi, Hussain and Al-Saleh, 2009; Afza and Hussain, 2011).

Clearly, previous researches on capital structure determinants were approved with numerous criterions, in view of the diverse determinants along with focus on particular industries or countries. In which case, divergent countries have unusual traits of characteristics, for instance, environment, culture and regulation that govern or affect the company's regulation activities. Consequently, vital conclusions on the capital structure studied in the earlier period were varied and inconsistent base on case by case study.

This research collected a continuously 16 years data sample of 151 surviving listed firms, consisted of 72 surviving family and 79 surviving non-family listed companies in Malaysia. It does not include financial and unit trust firms because of the differences in regulatory requirements (Haniffa and Hudaib, 2006). The data has been collected and analyze from the year 2000 because Malaysia economy started to recover from the economic crisis. Malaysia financial market has become strong and stable ever since the implementation of capital controls on 1 October 1998. Furthermore, some of the factors also take into consideration, for example like the source of government funding in Budget 1999 deficit, recapitalization in infrastructure and banking industry, strengthen level of external balance and foreign exchange reserve level holdings strengthening and so on directly contributed for the economic recovery. In addition, Weller (1998) stated that economic problems in Malaysia are considered lesser if compared to other countries, like Korea, Thailand and Indonesia. Besides, Malaysian market value for ten largest listed firms in year 2000 were considered concentrated although had experienced Asian financial slump. So, this research statistics is derived from listed company annual reports and financial database, Datastream.

The dependant variables used for this research are split into 3 categories which consist of debt ratio, short term debt ratio and long term debt ratio. Meanwhile, independent variables of capital structure are asset tangibility, growth opportunities, profitability and liquidity, which based on the firm size natural logarithm of total assets as the control variable for this study. Furthermore, this research used panel data analysis–fixed effects model because the figures are a combination of the time series and cross-sectional data, with 151 surviving listed companies' complete data for over 16 years sustain and continuously listed on exchange. As such, this research study shall extend, enhance, and enrich the field of knowledge, providing some latest evidence and arguments to the scope of the family companies study.

1.2 Capital Structure & Determinants

Discover an optimal capital structure for a company in order to maximized firms value is fundamental, it helps companies to stay alive in the competitive market and has a positive effect on the national economy (Hashemi, 2013). Since wealth maximization is the primary objective of the firms and capital structure proposition shows how a firm plans to finance its projects to meet its first objective (Hashemi, 2013). Companies' assets are financed by either internal or external capital. It is mandatory on the firm's management to determine which source best suits the firm at any point in time. In deciding whether to finance the firm's assets with equity, debt or both, certain conditions must first be considered. A wrong composition of a firm's capital structure can result in liquidity and solvency problems (Modugu and Eragbhe, 2015). In taking this strategic decision, managers must inevitability apply caution in ensuring that a right mixture of equity and debt are used to harness the benefits accruable from such combination.

It is certain that the capital structure recommended the method where an organization funding itself through matching the method with combination of equity, debt or hybrid securities. This method had been defined by Emery, Finnerty and Stowe (2004) as “the leverage ratio”, which is an approach where capital is the proportion of firm value financed with debt. Likewise, capital structure is generally distinguished as an amalgamation of an organization’s long term debt, specific short term debt, common equity and preferred equity. Generally, it explained that in term of how a company finances its overall operations and growth by using different kind of sources of funds. Besides, debt derived in the bond issues (long term notes payable), and short term debt like working capital requirements, whilst equity is categorised as common stock, preferred stock or retained earnings.

Therefore, the capital structure decision is quite complicated problem in operating of any company because there are various possible choices. So, debt-to-assets ratio, duration of liabilities, and currency choice is the three examples of parameters that can be differentiated between them. If the preference of financial policy is considered very consequential for the company’s operations and daily management, then this policy is a crucial concern for the owners or any interest related parties. As a result, the choice of financial policy indeed could change the value of the firm, which is why these issues were first comprehensively studied by Modigliani and Miller (1958) which led to their well-known propositions.

The propositions and the questions raised defined the research field of corporate finance during the following decade. After that, there has been a huge amount of research, testing, expanding, as trying to answer the capital structure questions. So far, there is no complete satisfaction answers been reached and the returns to the research have not yet reached a steady state either (Thorsell and Cornelius, 2009).

Subsequently, the determinants of capital structure, such as asset tangibility, growth opportunities, profitability, liquidity and firm size, are the factors that influence the company's capital structure decisions. The four majority variables are widely used and best suitable to express the context in Malaysia as a whole. In addition, this study analyze the listed surviving family and non-family firms, which are appropriate to enrich the advancement of knowledge to reflect the firm's survival. The impact of firm-specific factors such as profitability, firm size, growth opportunities and asset tangibility are found to be strong and consistent with the capital structure theory across a large number of countries (De Jong, Kabir and Nguyen, 2008). These determinants will be discussed in the following section as variables that retrieved from the published journals and literature. Hence, the previous observed result on the perspective of refined and commencing researches directly conducted on the variety of independent variables enrich the experiential evidences and findings on Malaysia environment.

As conclusion for this session, this study proposes to scrutinize the determinants of the capital structure in relating with sample data of 151 Malaysian listed companies, consist of 72 surviving family and 79 surviving non-family listed companies in Malaysia, from year the 2000 to 2015, which come to a total number of 16 years continuously. According to Gorriz and Fumas (2005), they explained that the surviving listed family firms, are those which can remain and maintain listed in the stock market for 15 years continuously. Both of them establish that family companies that have greater productive competence than surviving non-family listed firms and no significant differences in profitability between them.

1.3 Family Performance and Characteristics

The family-controlled or family ownership company is the most conventional type of business organization worldwide. Family-owned businesses had covered more than 80% of U.S companies and almost 18% of the S&P 500 company equity stakes were hold by the families' members (Anderson and Reeb, 2003). Aside from that, various researchers had conducted the studies on the achievement of family-owned listed company appertaining to their countries individually; the countries in the sample are France, Italy, Turkey, Norway, Taiwan and Spain (Gorriz and Fumas, 1996; Mishra, Randoy and Jenssen, 2001; Yeh, Lee and Woidtke, 2001; Gursoy and Aydogan, 2002; Favero, Giglio, Honorati and Panunzi, 2006; Sraer and Thesmar, 2006). The studies clearly proven that listed family companies perform better in contrast to listed non-family companies, which is one of the main reasons that Berle and Means (1932) discusses family ownership structure comprehensively.

In human history, magnificent successful companies started as a family-owned business and no doubt, it plays an essential role in the country's economic development history. Malaysia as shown in Table 1.1, the number one of ranking top richest person is Tan Sri Robert Kuok whe assets are estimated of USD 11.3 billion, while holding the world number 103 ranking in year 2016, followed by number 110 in year 2015. His family businesses involved in palm oil, shipping, real estate, self-made, sugar and so on, a managed company like well-known Shangri-La Hotel, Malaysian Bulk Carriers Berhad, PPB Group and so on. Meanwhile, Tan Sri Ananda Krishnan is ranked number two with wealth about USD 7.9 billion. His businesses involved in Telecom, self-made, managed Astro Malaysia Holdings Berhad, Maxis Communication Berhad and so on.

Table 1.1: The Richest Malaysians According to Forbes Magazine 2016

Name	**World Ranking 2016**	**World Ranking 2015**	**Malaysia Ranking 2016**	**Source of Wealth**	**Assets (USD $ Billion)**
Tan Sri Robert Kuok	103	110	1	Palm oil, shipping, real estate, self-made, sugar	11.3
Tan Sri Ananda Krishnan	158	129	2	Telecom, self-made	7.9
Tan Sri Quek Leng Chan	248	265	3	Banking, real estate	5.5
Tan Sri Teh Hong Piow	308	277	4	Banking, self-made	5.1
Tan Sri Lee Shin Cheng	317	352	5	Palm oil, real estate, self-made	4.8
Tan Sri Yeoh Tiong Lay	771	603	7	Construction, real estate, self-made	2.5
Tan Sri Lau Cho Kun	1121	1711	8	Palm oil, real estate	1.6
Tan Sri Syed Mokhtar Albukhary	1198	628	9	Diversified, self-made	1.85

Forbes 2016 – World & Malaysia Ranking, as at 13/8/2016

(Source: http://www.forbes.com/billionaires/#/version:static_country:Malaysia)

Furthermore, Tan Sri Quek Leng Chan (Hong Leong Bank Berhad, Guocoland Malaysia Berhad, Hong Leong Financial Group Berhad, and so on), and Tan Sri Teh Hong Piow (Public Bank Berhad) both of them involved in banking and real estate, ranked number 3 and 4 in Malaysia ranking in the year 2016, with wealth

USD 5.5 billion and USD 5.1 billion respectively. Tan Sri Lee Shin Cheng, ranked number 5, managed IOI Corporation Berhad, also well-known family businessman, involved in palm oil plantation, real estate, self-made and so on, estimated assets worth about USD 4.8 billion. On the other hand, Tan Sri Yeoh Tiong Lay, ranked 7 in the list, well-known YTL group, managed YTL Corporation Berhad and other subsidiaries as well, assets worth USD 2.5 billion. In conclusion, obviously the family businesses based companies in Malaysia are playing a very important role in country economic development.

In addition, Figure 1.1 below shows the financial ratios comparison between surviving family and surviving non-family companies from the timeline of 2001 to 2015 as calculated by Tobin's Q, Return on Equity (ROE) and Return on Assets (ROA). According to Cheang (2017), in his study of the affiliation among the corporate governance mechanisms and firm achievement of surviving family and surviving non-family companies listed in Bursa Malaysia for 15 years (year 2001 - 2015) by using 30 top largest listed companies which consists of 13 survival firms (6 family companies and 7 non-family companies). The research findings reveal that the board size and proportion of independent director of surviving family firms show negatively significant with Tobin's Q respectively. Furthermore, the study has proved that surviving non-family companies perform better than surviving family companies with significant differences.

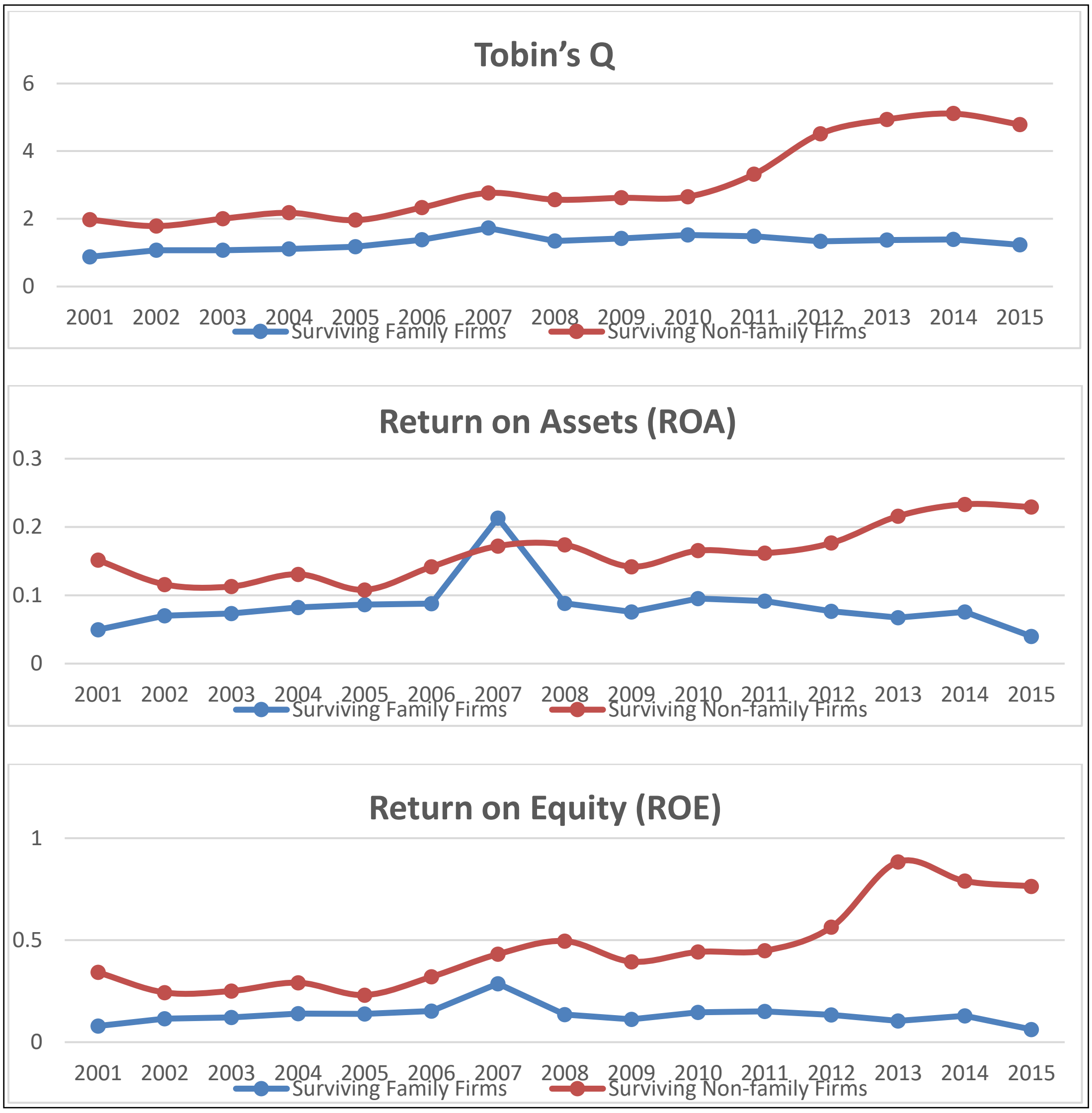

Figure 1.1: Comparison Surviving Family and Non-Family, Tobin's Q, ROA, ROE

Referring to Figure 1.1, obviously Tobin's Q of surviving non-family firms are highly overvalued than surviving family firms, the value increases 15 years continuously. Still, return on assets (ROA) of surviving non-family firms is higher and perform better than surviving family firms, except year 2007. Lastly, surviving non-family companies also performed better than surviving family companies in term of return of equity (ROE). However, it can be observed that the performance of Tobin's Q, ROA and ROE of surviving family companies sustain for more than one decade even during the economic crisis. In addition, the major dissimilarities among surviving family and surviving non-family listed firms in term of the capital structure decision and determinants as well which create the interest of this research.

Instead of family company's performance which been discussed earlier, the family firm's characteristics also directly affect their financial decision as well. Generally, family firms can be determined if the family member owns and administer family inheritance, involve directly in management level, and taking care of their family future generation's interests. As a result, family firm is commonly cautious and conservative on financial decision to make sure their survival and longevity in the long run of business (Colot and Croquet, 2009; Medeiros, 2015).

Anderson and Reeb (2003) claimed that family company shareholders are significantly affected by the long term continued existence of their founded company. Family command and permanence in business operation are as important as main priority duty for the family company (Casson, 1999). So, the theory of control is applicable to the family firms. In addition, Hirigoyen (1982) mentioned that the family firm managers always used cautious financial strategy because the main objectives are for continuity or longevity of their respective company. Therefore, the family company implements defensive and conservative strategies to prevent the loss of family control (Ward, 1988). As a result, it makes sense that family shareholders attempt to decrease the company's international threat to guarantee for long term continued existence in market. For survival purpose, company shareholders do not believe that bankruptcy risks increases due to an increase in financial debts and bankruptcy risk respectively may be seen by family shareholders as a loss of family control to creditors. Hence, when the self-financing capacity is limited, family companies would have to find another new way of financing and prefer of having banking debts open to their capital (Calof, 1985; Wtterwulghe, 1998).

According to Cheang (2017), the results demonstrated that surviving non-family companies perform better than surviving family companies with significant differences in Tobin's Q, ROA and ROE. Therefore, there might be a significant difference between surviving family and non-family firms in Malaysia listed company from capital structure perspective. Surviving family firms and non-family are unique and for the companies to remain listed for 16 years and above is remarkable. Furthermore, for further understanding the study on whether capital structure determinants are significant to the financial decision making on the longevity of the surviving family and non-family firms in Malaysia. Moreover, this study analyze the surviving family and non-family listed firms, which are appropriate to enrich the advancement of knowledge to reflect the firms' survival. There are many studies on families' business in Malaysia (Ibrahim and Samad, 2011; Mat Nor *et al*., 2012; Hussain *et al*., 2015; Cheang, 2017). However, lack of study has been conducted on the subject of surviving companies in terms of capital structure in Malaysia.

1.4 Problem Statement

In general, the theory of capital structure has been one of the mainly questionable and controversial issues in the hypothesis of finance for the past 40 years, and currently still no prevalent hypothesis of the debt-equity preference, and no reason to anticipate one (Myers, 2001). The aspects concerned with selecting a capital structure are difficult and the impact of every determinant on the value of the company is not constantly noticeable.

However, this research attempts to present a general idea of contemporary theories on capital structure. The contemporary theory or hypothesis of the capital structure began with the distinguished composition journal of Modigliani and Miller (1958). Then, the presence of an ideal financial market, capital structure is inapplicable to companies' value is argued. Ever since, numerous researchers and economists have pursued their theory.

In the year 1997, numerous Asian companies had an enormous negative impact due to the economic crisis. Furthermore, in the recent year of 2008 financial disaster is considered by many economists as the worst financial crisis ever since the Great Depression 1930s. It had resulted in tremendous downfall of major financial institutions, and the bailout of many bankers, extremely bearish or downward of stock markets all around the world. On the other hand, the outcome of the economic catastrophe became clear in the year 1997 and 2008 which caused numerous huge and well-built financial background companies to deal with bankruptcy and failure in Malaysia.

It had been addressed by Ferri, Hahm and Bongini (1998) that the issues of the corporate financial structures in East Asian companies, including Malaysia, highly contributed to the East-Asian financial catastrophe, and ultimately resulted to numerous corporations bankrupt, insolvency and financial distress. In addition, Shafie, Ang and Ahmadu (1999) confirmed that the influence of the crisis on the failed company in Malaysia was observed through the indicator specifically on company liquidation, defaulting in debt repayments, and non-compliance with publication as well as rating movement.

Concurrently, the financial ratio analysis represents a significant responsibility in sustaining the operations of financial institutions. As reported by Altman (1983), it had been revealed that relatively 24 commercial banks based on company failure classification paradigm in lending decisions making, security and portfolio analyses. Thus, it is crucial to managing the debts wisely in order to make sure the longevity of the business life, especially their credit rating, branding, reputation and the ability to manage their debts accordingly.

As discussed in earlier part based on Table 1.1, the contribution of family businesses to the country's economic and marketplace cannot be denied and undoubtedly all around the world. The successes of the surviving family companies portray an important part in most of the country's development. In East Asia, proved evidence and data figures showed that family companies undoubtedly have a greater performance mostly in country like Taiwan, Hong Kong, Singapore and China. For instance, Li Ka-Shing (Hong Kong) are recognized for an established successful corporation (Ibrahim, 2011). On the other hand, In Malaysia, Robert Kuok, 'The Sugar King' of Kerry Group, is among one of the family that contributed in boosting of ASEAN nation's business landscape (Ibrahim and Samad, 2011). Besides, numerous researches had been presented on the company in leading developed countries, particularly United Stated, so there was lack of interest focus on other developing countries, especially like Malaysia.

Deesomsak, Paudyal and Pescetto (2004) conducted a study and acknowledged that the option debt and equity rely on companies' distinctiveness. For that reason, it is complicated to decipher the observed evidence with no appropriate technique. In view of the fact, preference of debt and equity relies on the distinctiveness of companies, as the research ought to be detailed categories on countries and industries with diverse distinctiveness. Therefore, results from a particular research are incapable to generalize and practice for particular countries and industries. Followed by a research by Mat Kila and Wan Mahmood (2008) also asserted that there are no definite instructions to facilitate or assist managers in making the accurate financial decisions given that the factors were still uncertain or unknown.

In addition, Al-Ajmi *et al.* (2009) acknowledged that the comprehensions of the aspects manipulating finance judgments haven't occured as the restricted or limitation research was carried out only in United States (Al-Ajmi *et al*., 2009). Hence countries with the distinct environment have a different aspect which may affect or influence the capital structure choices, subsequently financial decisions cannot be decided according to the outcome from the studies performed in other countries.

Against this background, Jensen and Meckling (1976) specify that family base ownership business ought to be more efficient than professional non-family management due to the lesser cost of monitoring occur in family controlled company. In addition, there are differences in term of the measurement of firm age, firm size, firm strategy, firm internal control management systems among family and non-family managed companies (Daily and Dollinger, 1991). Besides, they also claim that family ownership business has a higher level of mortality, practise different strategy, and not rely on the formal control system, as compared to non-family base firms. Also, McConaughy, Matthew and Fialko (2001) state that family controlled firms founding are more efficient, higher value, less debt if compare to non-family founding firms by controlling of industry, size and managerial ownership.

In addition, Jiang and Peng (2011), research study focus on 744 big public listed companies, family-owned and controlled company in 8 East and Southeast Asia, namely Indonesia, Hong Kong, Philippines, Singapore, Malaysia, South Korea, Thailand and Taiwan. As a result, they indicate that the Malaysian family controlled companies able to perform better in the pyramid structure. Still, the result of family ownership on company performance considered acceptable as measured by stock return and the family chief executive officer is found unrelated in Malaysian family controlled company. Therefore, many academicians and researchers beforehand specify inconsistent outcomes in suggesting to the relationship between family controlled and company value. There are some researches studies shown different country's family-controlled companies are demonstrated superior than non-family controlled companies, such as United State, France, Thailand, and Spain (Gorriz and Fumas, 1996; Anderson and Reeb, 2003; Sraer and Thesmar, 2006; Yammeesri and Lodh, 2004). On the other hand, family-controlled company proven to be underperform than non-family company in Israel (Lauterbach and Vaninsky, 1999).

In recent business perspective, capital structure is considered fundamental and vital to a company financial management because it presents an approach of a company's risks. A highly leverage company shows the company has higher level of debts. As a result, the high leverage company has a more high-level risk as contrasted to the lower level of debts. Besides, financial distress, liquidation, failure, shut down and bankruptcy may happen due to major misjudgment in financing methods. While companies failed to finance debt, the companies ought to face the costs of financial distress (Pandey, 2004). As a result, highly leveraged companies should distribute a well-organized amalgamation of debt and equity for the company’s assets in order to decrease the cost for the prospect of the company.

On the other hand, there are numerous done on capital structure determinants in Malaysia these days and contain of some industries, such as, Pandey (2004) research has established a saucer-shape correlation among profitability and capital arrangement in Malaysia through agency costs, interest and costs of external financing. Likewise, a study administered by Mat Kila and Wan Mahmood (2008) outcome demonstrated that Malaysian companies have an exceptional quality. Even so, the sample capacity was insufficient for this research, by which merely 17 companies were taken into consideration, thus the outcomes were not really reflecting the actual characteristics of Malaysian companies. Moreover, researches on capital structure concentrated solely in the Islamic bank performance were administered by Pratomo and Ismail (2006).

Whereas Mahmood *et al*. (2011) had solely concentrate on the property industries in their paper that indicated that companies in the property industries generally depend heavily on external funding to sustain their investment activities. Furthermore, the findings recommended that capital structure in the property industries insufficiently reflect the overall situation as explained by the specific determinants, thus, the research administered by Mahmood and Zakaria (2007) was solely restricted to the property and construction industries only. On the other hand, Jamal, Mohidin and Karamah (2011) emphasized that liquidity, growth opportunities and tangibility influence companies financing judgements in the trading and services industries in Malaysia. However, profitability and firm size does not show to have any important consequence on their capital structure decision. Therefore, good financial decision cannot be generated base on existing results whereby insufficient verification to demonstrate that the relationship linking the factors controlling the capital structure outcomes in Malaysian companies.

In accordance to these researches, it can be concluded that capital structure judgements were restrained and limited to certain industry only, as a result, there are unable to reflect the current capital structure of the general companies in Malaysia since companies in various industries have unique company characteristics. Therefore, there is a need for further study in Malaysia now and in future for more upcoming research study. In conclusion, this research study shall pay attention and focus on the issue of capital structure determinants and capital structure decision by making a comparison between the surviving family and non-family companies especially those 151 filtered surviving listed companies in Malaysia for 16 years continuously, which consist of 72 surviving family and 79 surviving non-family companies respectively.

1.5 Research Objectives

The research objectives of the study can be summarized as follows:

1. To analyze the relationship between asset tangibility and capital structure decisions (short term debt, long term debt and debt ratio) in comparison of surviving family and non-family listed companies in Malaysia.
2. To examine the relationship between growth opportunities and capital structure decisions (short term debt, long term debt and debt ratio) in comparison of surviving family and non-family listed companies in Malaysia.
3. To examine the relationship between profitability and capital structure decisions (short term debt, long term debt and debt ratio) in comparison of surviving family and non-family listed companies in Malaysia.
4. To evaluate the relationship between liquidity and capital structure decisions (short term debt, long term debt and debt ratio) in comparison of surviving family and non-family listed companies in Malaysia.

1.6 Research Questions

The research questions of the study as follows:

1. Does asset tangibility influence capital structure decisions (short term debt, long term debt and debt ratio) of surviving family and non-family listed companies in Malaysia?
2. Do growth opportunities influence capital structure decisions (short term debt, long term debt and debt ratio) of surviving family and non-family listed companies in Malaysia?

3. Does profitability influence capital structure decisions (short term debt, long term debt and debt ratio) of surviving family and non-family listed companies in Malaysia?
4. Does liquidity influence capital structure decisions (short term debt, long term debt and debt ratio) of surviving family and non-family listed companies in Malaysia?

1.7 Significance of The Study

Over the past two decades, Malaysian equity market has shown a significant growth additionally with Kuala Lumpur Stock Exchange (KLSE) becoming the third largest exchange in ASEAN (Thilainathan, 1999). Stock market in Malaysia seems to be very potential as one of the investment portfolios beside different fund-raising purposes. As a result, the study able to assist the readers in analyzing their investment portfolio, by understanding the debt to equity ratio as risk assessment, especially for long term investment focus on surviving family or non-family listed companies.

Furthermore, the analysis and comparison of performance between the surviving family and non-family listed companies in Malaysia is consider a significant research study and value creating or value adding to the existing empirical studies. This study also shows that the forte and uniqueness of the Malaysian family business nature and culture, after the session of filtering, adapting, classifying, identifying the family companies. The family ownership or family shareholders in a specific listed firm need to be calculated manually from the annual report every year respectively, by considering the substantial shareholders, understanding the board member background, direct or indirect substantial shareholders and top 30 largest or substantial shareholders. Thus, this study will be able to reduce the gap in family firm's worldwide studies.

On the other hand, this study is focusing and investigating on the relationship between the dependent variable namely debt ratio, short term debt ratio, long term debt ratio and the independent variables namely tangibility, growth, profitability, liquidity, and lastly control variable is firm size. So, it can reveal and express the Malaysian listed companies' culture, help or assist as an empirical case study in the research area. It may enhance and strengthen literature of research study, by adding an interesting area of surviving family and surviving non-family listed companies in Malaysia for a continuous 16 years of data to analyze their performance.

1.7.1 Theoretical Contribution

The contribution of this study includes enhancing the knowledge of the capital structure determinant in the listed firm as a comparison or difference of 72 surviving family and 79 non-family listed companies over 16 years continuously in Malaysia's stock market. The main part is to analyze, compare, and investigate among surviving family and non-family listed firms in stock market of Malaysia.

Furthermore, it also providing understanding, knowledge, and data for the continuous 16 years on surviving family listed firms in stock market, which enable the investors, readers, and researchers for their own study, whether in the investment portfolio, enlightens knowledge, or further exploration in the surviving family and non-family listed companies. It shall contribute to the research after this study for future reference. This study also contributed to the existing literatures on analysis of capital structure determinants, especially on empirical analysis from Malaysia surviving family and non-family listed companies. Furthermore, this study analyze the surviving family and non-family listed firms which are appropriate to enrich the theoretical advance of knowledge as to reflect the firm’s survival. It is able to fill in the gap between the empirical studies of the developed and developing countries in capital structure of surviving and longevity issues especially Malaysia firms.

1.7.2 Practical Contribution

The intention to conduct this research is to identify which factors are critical to the selection of a mix of capital structure. The result from this study can be used by corporate and portfolio managers to set financing at lowest possible cost while assists investors to put in their savings money in the right investment in order to obtain maximum return from investments. As debt to equity ratio is not only able to inform decision maker or CFO but debt ratio also can assist others on a simple measurement of how much debt used to run their business. In general, if the debt to equity ratio is too high, it is a warning sign that the company may be in financial distress and unable to pay the debtors. However, if it is too low, it is an indication that the company is over-relying on equity to finance the business, which can be costly and inefficient (Gallo, 2015).

Furthermore, leverage ratio allows the investor to decide whether to grant the company loans because leverage ratio assists investor on whether the company has the ability to generate revenue, profit and cash flow to cover expenses (Gallo, 2015). If the ratio goes up, it perceived that the risk goes up, if there is no interest payment, the bank or lender is able to force the company into bankruptcy. Equally for bankers, in particular, use leverage ratio in conjunction with other measures, for example, profitability and cash flow, to decide whether to loan the money (Gallo, 2015). Experience bankers are able to identify an appropriate ratio for a company of any given size in a particular industry.

According to Gallo (2015), most managers unlikely to interact with leverage ratio in their day-to-day business but it is helpful to know their company's ratio is and how it compares with the competitors. It is a good measure of how senior management thinks about taking on more debt and hence whether the manager able to propose a project that involves taking on additional debt. If the company with a high ratio means senior management are expected to reject raising additional cash through borrowing (Gallo, 2015). As for the individual, leverage ratio might be helpful when looking for new employers, as leverage ratio allow an individual to expect how long they might have a job based on the potential company financial health. Besides, the study helps to consider the comparison of surviving family and surviving non-family listed companies in determinants which affect the financial leverage. The source of funding for surviving family and non-family listed firms might be different depends on their business nature.

1.8 Scope of The Study

This study focuses on 151 filtered listed companies in Malaysia from the year 2000 until 2015, a total of 16 years continuously, 72 surviving family companies and 79 surviving non-family companies. The main reason of the specific period of time is set for this study is 15 years and above mainly to prove and categories the companies