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**POLITICAL CONNECTION AND CORPORATE
FINANCING DECISION: EVIDENCE FROM MALAYSIA**



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Universiti Utara Malaysia

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EVIDENCE FROM MALAYSIA



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ABSTRACT

This study investigates the impact of political connection on corporate financing decision of 292 firms listed in Bursa Malaysia from 2006-2015. Existing studies document that firms with political connection tend to have more debt because they have close relationship with the government, which enable them to have easier access to loans. Employing a sample of trading & service sector and industrial products sector, the result of this study concludes that politically connected firms in Malaysia prefer debt to finance their operations. This study also employs firm size (SIZE), firm growth (GROWTH), profitability (PROFIT), liquidity (LIQUID) and asset tangibility (TANG) to determine the other factors that influence corporate financing decision. The results show that SIZE, PROFIT and LIQUID have a negative relationship with total debt ratio (LEV). This implies that larger firms and more profitable firms less prefer debt as their sources of financing. Firms with high liquidity also tend to use their equity as internal sources of finance instead of debt. Meanwhile, TANG has a positive relationship with LEV, indicating that Malaysian firms with greater amount of tangible assets prefer debt as their sources of financing.

Keywords: Political Connection, Debt, Financing, Malaysia.

ABSTRAK

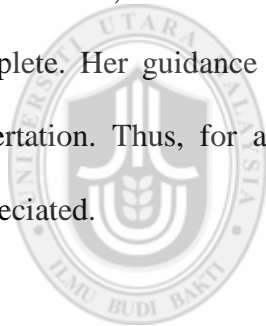
Kajian ini mengkaji kesan hubungan politik ke atas keputusan pembiayaan korporat terhadap 292 buah syarikat yang tersenarai di Bursa Malaysia dari tahun 2006 hingga 2015. Kajian-kajian terdahulu telah mendokumentasikan syarikat-syarikat yang mempunyai hubungan politik cenderung mempunyai banyak hutang kerana hubungan rapat mereka dengan kerajaan yang memudahkan mereka untuk memohon pinjaman. Dengan menggunakan sampel sektor perdagangan & perkhidmatan dan sektor barangan industri, hasil kajian ini menyimpulkan bahawa syarikat yang mempunyai hubungan politik di Malaysia lebih memilih hutang sebagai sumber pembiayaan operasi syarikat mereka. Kajian ini juga menggunakan saiz firma (SIZE), pertumbuhan firma (GROWTH), keuntungan (PROFIT), kecairan (LIQUID) dan aset ketara (TANG) untuk menentukan faktor-faktor lain yang mempengaruhi keputusan pembiayaan korporat. Hasil menunjukkan bahawa SAIZ, PROFIT dan LIQUID mempunyai hubungan yang negatif dengan nisbah jumlah hutang (LEV). Ini menunjukkan bahawa syarikat yang lebih besar dan syarikat yang lebih menguntungkan kurang memilih hutang sebagai sumber pembiayaan. Syarikat yang mempunyai kecairan yang tinggi juga cenderung menggunakan ekuiti berbanding hutang sebagai sumber kewangan. Sementara itu, TANG mempunyai hubungan yang positif dengan LEV, menunjukkan bahawa syarikat Malaysia dengan jumlah aset ketara yang lebih besar memilih hutang sebagai sumber pembiayaan.

Kata Kunci: Hubungan Politik, Hutang, Pembiayaan, Malaysia

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CHAPTER I

INTRODUCTION

1.1 Background of study

What determines corporate capital structure? Despite a huge numbers of researches have been conducted on this question, there are still uncovered issues within capital structure including corporate financing. Financing decision is essential for the firm's long run performance as it may lead to financial distress and even bankruptcy if any flawed decision is taken. One of the important aspects that should be considered in every decision is to maximize the firm's value (Suhaila and Wan Mahmood, 2008; and Alipour, Mohammadi and Derakhshan, 2015). Basically, capital structure is an approach a firm uses to finance its overall operations and growth by using varieties sources of funds. Capital structure generally comprises of debt, common stock, and preferred stock that are used to finance the various long-term projects of the firm (Chadha and Sharma, 2015).

Debt defines as source of fund that firm has to borrow from various provider of capital. Debt is different from equity due to it has borrowing costs, typically through payment of interest. Debt also has fixed term at the end of which debt will mature where the borrowed amount or also known as principle must be repaid at maturity.

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