UNIVERSITI PUTRA MALAYSIA

RELATIONSHIP AMONG CAPITAL STRUCTURE, MANAGERIAL ABILITY, FIRM AGE AND SHAREHOLDERS RETURN IN MALAYSIA

MATEMILOLA BOLAJI TUNDE

FEP 2015 11

RELATIONSHIP AMONG CAPITAL STRUCTURE, MANAGERIAL ABILITY, FIRM AGE AND SHAREHOLDERS RETURN IN MALAYSIA

By

MATEMILOLA BOLAJI TUNDE

Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, in Fulfillment of the Requirements for the Degree of Doctor of Philosophy

August 2015

Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirement for the degree of Doctor of Philosophy

RELATIONSHIP AMONG CAPITAL STRUCTURE, MANAGERIAL ABILITY, FIRM AGE AND SHAREHOLDERS RETURN IN MALAYSIA

By

MATEMILOLA BOLAJI TUNDE

August 2015

Chair: Associate Professor Bany Ariffin Amin Noordin, PhD
Faculty: Economics and Management

The study aims to achieve three objectives using the system generalized method of moments as the main estimation technique. Firstly, the study investigates top managers' managerial ability as a determinant of capital structure. Secondly, the study examines the moderating effect of top managers' managerial ability on the relationship between debt and shareholders' returns. Third, the study investigates the moderating effect of firm-age on the relationship between debt and shareholders' returns.

The results reveal that top managers' managerial ability is a determinant of capital structure in Malaysia and the results are robust to alternative model specification and different capital structure proxy. Top managers' managerial ability also positively moderate the relationship between debt and shareholders' returns in Malaysia. In addition, the firm-age positively moderates the relationship between debt and shareholders' returns. The implications of the findings are as follow: shareholders need to conduct research to understand the management capital structure strategy. This is because good capital structure decisions that maximize interest tax-shield, and increase the return to shareholders reflects top managers' ability. Top managers need to update their skills as well as maintain a sustainable debt level in their capital structure that increases the shareholders' returns. Policymakers should be more specific about the top managers' education and experience requirements, and create the enabling environment for further managerial development.

The study contributes to the literature in two main ways. Firstly, unlike previous studies that uses dummy variable to measure managerial ability, this study quantify and develops an index (average) measure of top managers' managerial ability. Secondly, unlike previous study that assumes that increase in capital structure and shareholders' returns reflect top managers' managerial ability, this study separates managers' ability from capital structure and return components. This approach allows top managers' managerial ability to directly affect firms' capital structure and to moderate debt-shareholders' returns relationship.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

HUBUNGAN DI ANTARA STRUKTUR MODAL, KEUPAYAAN PENGURUSAN, JANGKA SYARIKAT DITUBUHKAN DAN PULANGAN PEMEGANG DI MALAYSIA

Oleh

MATEMILOLA BOLAJI TUNDE

Ogos 2015

Pengerusi: Profesor Madya Bany Ariffin Amin Noordin, PhD
Fakulti: Fakulti Ekonomi dan Pengurusan

Kajian ini bertujuan untuk mencapai tiga objektif dengan menggunakan kaedah sistem umum momen sebagai teknik anggaran utama. Pertama kajian mengkaji keupayaan pengurusan pengurus atasan sebagai penentu untuk struktur modal syarikat. Kedua, kajian meneliti kesan moderasi keupayaan pengurusan pengurus atasan terhadap hubungan antara hutang dan pulangan pemegang saham. Ketiga, kajian ini menyiasat kesan moderasi jangka syarikat ditubuhkan terhadap hutang dan pulangan pemegang saham.

Keputusan mendedahkan bahawa keupayaan pengurusan pengurus atasan adalah penentu struktur modal di Malaysia dan keputusan adalah tegas terhadap speksifikasi model gantian dan pelbagai proksi struktur modal. Kepupayaan pengurusan pengurus atasan juga secara positifnya memoderasikan hubungan antara hutang dan pulangan pemegang saham di Malaysia. Di samping itu, jangka syarikat yang ditubuhkan secara positifnya memoderasikan hubungan antara hutang dan pulangan. Implikasi kajian adalah seperti berikut: pemegang saham perlu menjalankan penyelidikan untuk memahami strategi struktur modal pengurus atasan. Ini kerana keputusan struktur modal yang baik, yang meningkatan faedah perisai cukai, dan meningkatkan pulangan kepada pemegang saham, mencerminkan keupayaan pengurus atasan. Pengurus atasan perlu mengemaskini kemahiran mereka sambil mengekalkan paras hutang yang mampan dalam struktur modal mereka, yang meningkatkan pulangan pemegang saham. Perancang dasar patut lebih spesifik terhadap tahap pendidikan dan pengalaman pengurus atasan, mewujudkan persekitaran yang mampu meningkatan perkembangan pengurusan.

Kajian ini menyumbang kepada kajian lepas dalam dua utama aspek. Pertama, berlainan daripada kajian lepas yang menggunakan pembolehubah patung yang mengukur keupayaan pengurusan, kajian ini mengukur dan membina indeks (purata) ukuran keupaayan pengurusan pengurus atasan. Kedua, berlainan daripada kajian lepas yang menganggap bahawa peningkatan dalam struktur modal dan pulangan pemegang saham yang mencerminkan keupayaan pengurusan pengurus, kajian ini mengasingkan keupayaan pengurus kepada komponen struktur modal dan pulangan.

Pendekatan ini membenarkan keupayaan pengurusan pengurus atasan untuk mempengaruhi struktur modal syarikat secara langsung dan memoderasikan hubungan antara hutang dan pulangan pemegang saham.

ACKNOWLEDGEMENTS

First, I am expressing my profound gratitude and appreciation to my supervisor Associate Professor Dr. Bany Ariffin Amin Noordin for his guidance, encouragement and support throughout the study period. His insightful comments have left a feeling of indebtedness that cannot be fully expressed.

I also express my gratitude and appreciation to the member of my supervisory committee, Associate Professor Dr. Wan Azman Saini Wan Ngah and Professor Dr. Annuar Md Nassir for their guidance and valuable comments that improve the thesis.

I am most grateful to School of Graduate Studies for the scholarship opportunity, and my family for their love and moral support which helped me to complete this study.

Finally, I express appreciation to the lecturers who taught me at the Universiti Putra Malaysia.

I certify that a Thesis Examination Committee has met on 13 August 2015to conduct the final examination of Matemilola Bolaji Tunde on his thesis entitled "Relationship among Capital Structure, Managerial Ability, Firm Age and Shareholders' Return in Malaysia" in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Doctor of Philosophy.

Members of the Thesis Examination Committee were as follows:

Alias bin Radam, PhD
Associate Professor
Faculty of Economics and Management
Universiti Putra Malaysia
(Chairman)

Junaina binti Muhammad, PhD
Senior Lecturer
Faculty of Economics and Management
Universiti Putra Malaysia
(Internal Examiner)

Izani bin Ibrahim, PhD
Professor
Graduate School of Business
Universiti Kebangsaan Malaysia
(External Examiner)

V. Reddy Dondeti, PhD
Professor
Norfolk State University
United States
(External Examiner)

ZULKARNAIN ZAINAL, PhD
Professor and Deputy Dean
School of Graduate Studies
Universiti Putra Malaysia

Date: 22 September 2015

This thesis was submitted to the Senate of Universiti Putra Malaysia for the fulfillment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

Bany Ariffin Amin Noordin, PhD
Associate Professor
Faculty of Economics and Management
Universiti Putra Malaysia
(Chairman)

Wan Azman Saini Wan Ngah, PhD
Associate Professor
Faculty of Economics and Management
Universiti Putra Malaysia
(Member)

Annuar bin Md Nassir, PhD
Professor
Faculty of Economics and Management
Universiti Putra Malaysia
(Member)

BUJANG BIN KIM SUHAT, PhD
Professor and Dean
School of Graduate Studies
Universiti Putra Malaysia

Date:

Declaration by graduate student

I hereby confirm that:

- this thesis is my original work
- quotations, illustrations and citations have been duly referenced
- the thesis has not been submitted previously or comcurrently for any other degree at any institutions
- intellectual property from the thesis and copyright of thesis are fully-owned by Universiti Putra Malaysia, as according to the Universiti Putra Malaysia (Research) Rules 2012;
- written permission must be owned from supervisor and deputy vice –chancellor (Research and innovation) before thesis is published (in the form of written, printed or in electronic form) including books, journals, modules, proceedings, popular writings, seminar papers, manuscripts, posters, reports, lecture notes, learning modules or any other materials as stated in the Universiti Putra Malaysia (Research) Rules 2012;
- there is no plagiarism or data falsification/fabrication in the thesis, and scholarly integrity is upheld as according to the Universiti Putra Malaysia (Graduate Studies) Rules 2003 (Revision 2012-2013) and the Universiti Putra Malaysia (Research) Rules 2012. The thesis has undergone plagiarism detection software

Signature: ______________________ Date: ______________________

Name and Matric No: Matemilola Bolaji Tunde/ GS33763

Declaration by Members of Supervisory Committee

This is to confirm that:

- the research conducted and the writing of this thesis was under our supervision;
- supervision responsibilities as stated in the Universiti Putra Malaysia (Graduate Studies) Rules 2003 (Revision 2012-2013) are adhered to.

Signature: ____________________
Name of Chairman of Supervisory Committee: Bany-Ariffin Amin Noordin, PhD

Signature: ____________________
Name of Member of Supervisory Committee: Annuar bin Md Nassir, PhD

Signature: ____________________
Name of Member of Supervisory Committee: Wan Azman Saini Wan Ngah, PhD

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1

INTRODUCTION

This section introduces concept and importance of capital structure decisions, background information of top managers on the board education and experience as well as firm age, salient features of Malaysian debt markets, problem statement, objectives, motivation of study, and significance of study.

Capital structure is the combination of debt and equity use in financing firms' operations (Islam and Khandaker, 2015; Flannery and Hankins, 2013). Capital structure is a part of the financial structure and it refers to the proportion of the various long-term sources of financing. The capital structure of a company is made up of debt and equity securities that firms use to finance their assets. Equity arises when firms sell some of its ownership rights to raise capital while debt is a contractual agreement, whereby firms borrow an amount of money and repay it with interest within a specific period of time (Pandey 2010). Thus, capital structure represents the proportionate relationship between debt and equity. Each component of capital structure has a different cost to the firm, and the issue that arises is what should be the appropriate amount of debt and equity to finance firms operation? The answer to this question remains an unresolved issue (Ross et al., 2011). Managers give more attention to debt component of capital structure because it is a double edge sword that increase returns during good economic times but lowers returns during bad economic times. Moreover, debt requires periodic payments of fixed interest and excessive debt increase the likelihood that managers may be unable to repay principal amount plus fixed interest, especially during bad economic times (Ross et al., 2013). Despite the fact that debt increases financial risk, most managers around the world are using more debt because interest on debt is tax deductible, and debt interest tax-shield increase shareholders' returns.

Malaysian managers are using more debt in their capital structure (IMF and World Bank, 2013; Ariff et al., 2009) in order to take advantage of the interest tax shield benefits to increase the shareholders' returns. But excessive debt increases bankruptcy risk (Myers, 1984); hence, top managers determine the optimal capital structure mix that maximizes the shareholders' returns. It is important to research on the importance of top managers' ability (proxy by years of experience and education level of top managers on the board) in Malaysia because the results have practical policy implication to managers, shareholders, policy makers, and researchers. To date, Malaysian corporate law does not specifies the educational level and experience requirements of firm's top-managers. The Malaysian Companies Act (1965) for example stated age requirement for firm top executive directors and that firms' should be govern by effective managers on the board (Section 122(2)) but the Companies Act did not state the education and experience requirements of the firm top managers on the board.

Researchers and practitioners generally acknowledge that top managers make important strategic decisions, such as deciding on the optimal capital structure mixes that maximizes shareholders' returns, but it is hard to find a study that directly investigates how top managers' managerial ability affect capital structure and how top managers' managerial ability affect shareholders' returns within the framework of Modigliani and Miller (M-M) and the trade-off theories. Capital structure debate starts with the M-M research work in 1958 that assume that capital market is perfect. In attempting to apply their theory to real-world situations, Modigliani and Miller (1963) revise it to allow for market imperfection such as taxes. Hence, after top managers take into consideration the tax advantage of debt financing, capital structure becomes important. However, even after over 50 years of research, the debate on the capital structure issue is unending.

The research to date on capital structure and asset valuation (within the M-M valuation model) has given little attention to the importance of unobservable factors such as the top managers' managerial ability in the capital structure model and in the return model. Researchers such as Hanousek and Shamshur (2011) and Lemmon et al. (2008) provide argument supporting the importance of unobservable firm-specific factors explaining most variation in the firms' capital structure. On the same issue of unobservable factors, Graham et al. (2011) note that managerial ability is a component of unobservable factors, but some aspects of managerial ability may change. Unlike previous study in the area of finance (e.g. Custodio and Metzger, 2014) that uses dummy variable to account for unobservable firm-specific factors like top managers' ability, the 'first contribution' of this present study is that it develops index (average) measures of top managers' managerial ability and applies the upper-echelons theory from the management literature to explain how managerial ability is related to firms' capital structure within the tradeoff theory framework, and how managerial ability is related to shareholders' returns within the Modigliani and Miller's risk-return relationship framework.

In their classic article, M-M (1958) note that management decisions influence capital structure and assets valuation (M and M 1958, p.264), but the way in which top managers' managerial ability affects capital structure and shareholders' returns are not explicitly analyzed in their theoretical model. This is because they take an aggregated approach in which effective capital structure decision and maximization of shareholders' returns reflect top managers' managerial ability. Conversely, this study 'second contribution' introduces a refined approach that disaggregates capital structure decisions from the top managers' managerial ability and allows this ability to directly affect the firms' capital structure as well as the shareholders' returns.

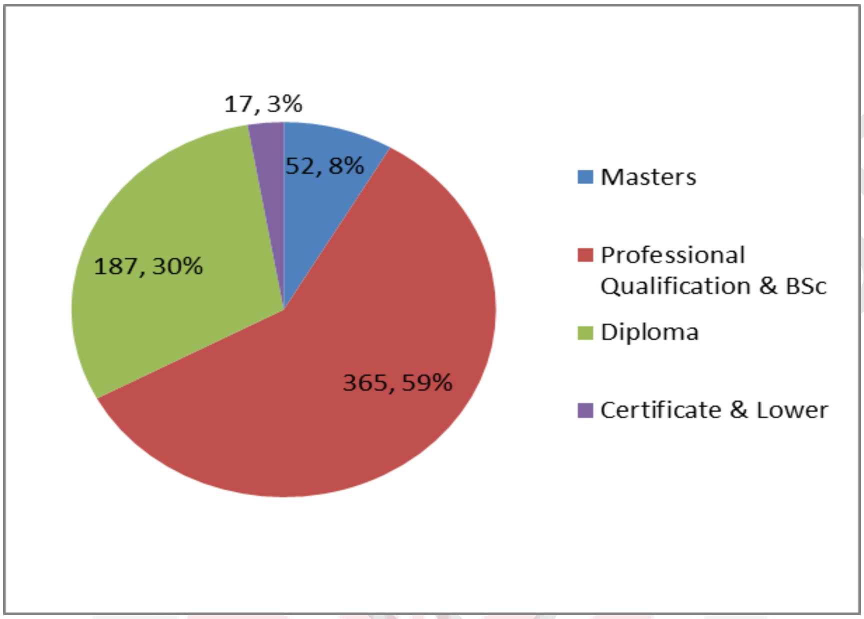
Moreover, unlike prior studies, this study integrates insight from the management theory, such as the upper-echelons theory, in explaining relationship between top managers' managerial ability and returns as well as the relationship between top managers' managerial ability and capital structure. Upper-echelons theory argues that attributes such as education level and years of experience among top managers influence their strategic decision (Hambrick and Mason, 1984; 2007). Furthermore, upper-echelons theorists suggest that firms' top managers are critical resources for firms' success, because top managers have significant influence on firms' strategic decisions, performance, and success (Escriba-Esteve, 2009; Hambrick and Mason, 1984; 2007). Also, values flow from top managers that make effective decisions that help achieve firm goals (Cheng et al., 2010), such as maximization of shareholders' returns and optimal capital structure (debt –equity mix).

This present study argues that top managers with more experience and education maximize the benefit of debt interest tax-shield, and thus encourage usage of more debt capital. Therefore, the top managers' managerial ability should be positively related to capital structure. Likewise, top managers with more experience and education maximize the benefits of the debt interest tax-shield; they can increase the shareholders' returns. Returns increase because interest on debt is expenses that shield earnings from taxes or reduce amount of taxes paid to the government. Therefore, the top managers' managerial ability is positively related to shareholders' returns.

Similar argument is presented on firm-age issue. Most Malaysian firms are moving closer to maturity stage in their firm-life cycle. As firms grow and mature, the benefits and costs of debt change, hence, firms can benefits from interest tax shield to raise debt capital. Firm-age is frequently used as a determinant of returns and when investigating the relationship between debt and returns (e.g. Custodio and Metzger, 2014; Lin and Chang, 2011) but it is hard to find studies that investigates moderating effects of firm-age on the relationship between debt and shareholders' return in the finance literature. Therefore, the 'third contribution' of this study is to integrate the life cycle theory with the M-M and tradeoff theories. This study draws insights from life cycle theory and argues that firms in growth stage (or firms closer to maturity stage) have more experience to negotiate and obtain favorable debt capital. Moreover, firms in growth stage (or firms closer to maturity stage) have experience and make effective capital structure decisions that maximize the benefits of the debt interest tax-shield; they can increase the shareholders' returns. Therefore, firm-age should moderate the relationship between debt and shareholders' returns.

1.1 Background of Study

Chart1. Top Manager's level of Education

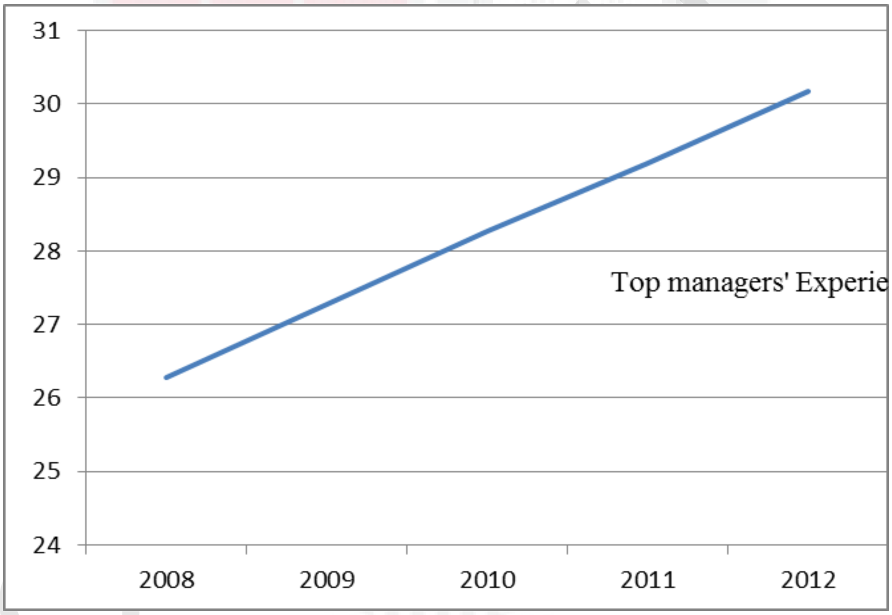


Source: Author's computation from raw data availability for 2012. The study modifies Herrmann and Data (2005) seven point scale to five point scale to reflect the Malaysian case, as educational measures (1=certificate and lower, 2= diploma, 3= Professional qualification and Bachelor degree, 4= Master degree, and 5= Doctorate). Thus, the top management educational level is measured as the average educational level of the top managers on the board from the assign score of each individual member. The statistics focuses on year 2012 mainly because it is the most recent data available.

The pie chart (Chart 1) shows the average percentage of top managers on the board that fall into the categories of Secondary Certificate and lower, High school diploma, Bachelor degree and Professional qualification, and Masters. The few managers with doctorate degrees are averaged out after averaging the education of all top managers' in each firm. Top managers with professional qualification and Bachelor degree (BSc) comprised the largest number (365), which corresponds to 59%. Top managers with a diploma comprised the second largest group (187), which corresponds to 30%. Top managers with Masters were just 52, corresponding to only 8% (Source: Author's Computation from raw data in 2012). The pie chart reveals that one way in which top managers with a high school diploma can improve their skills is to pursue a Bachelor degree, and top managers with Bachelor degree and professional qualification can further pursue at least an MBA degree.
In year 2012, based on the average of top managers on the board in each firm (total number of firms = 621), 319 top managers have experience that is above the mean (mean = 28), corresponding to 51.36%. Conversely, 302 top managers have

experience below the mean, corresponding to 48.63%. Moreover, the descriptive statistics reveal that the maximum average amount of years of experience in a firm was 44.7 years while the minimum average experience is 2.4 years. The substantial amount of average top managers on the board with experience below the mean and a minimum of 2.4 years of experience indicate that some Malaysian firms have top managers on the board with very low experience (Source: Author's Computation from raw data in 2012). This suggests that a study that investigates the impact of top managers' experience is necessary. A study that empirically establishes the impact of top managers' experience on firms' capital structure and shareholders' return would encourage firms and policymakers to put more emphasis on the education and experience requirements for the top management teams on the board. The graph 1 below shows the average experience of top managers on the board in the sample firms, each year. The graph reveals that average experience of top managers on the board has been increasing each year.

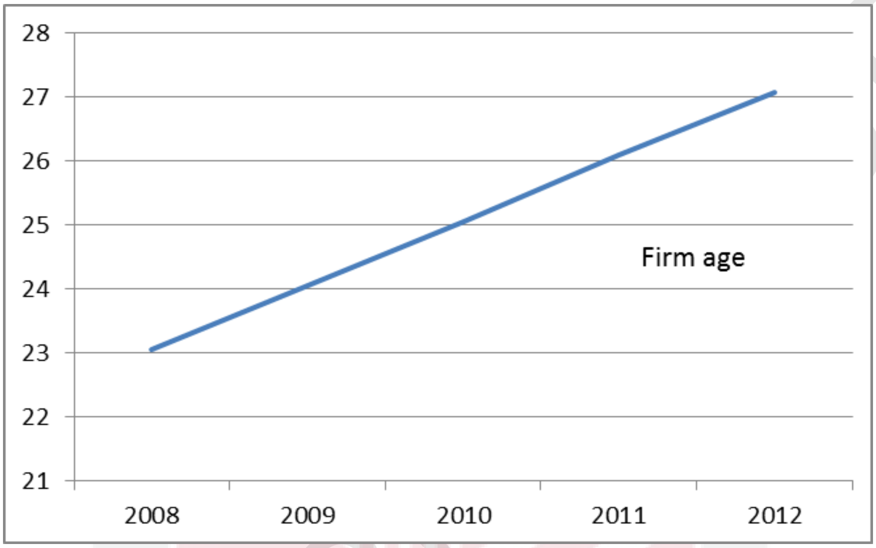
Graph 1



Source: Author's computation from raw data availability for 2008 to 2012. The graph is the average experience of top managers' on the board, in the sample firms, each year. Experience is calculated as the number of years the top managers work within the firm plus the number of years they work outside the firm, each year.

Turning to firm age, in year 2012, 256 firms (out of a total number of 621 firms) were older than the mean (mean = 25), corresponding to 41.22%. Conversely, 365 firms were younger than the mean, corresponding to 58.78% (Source: Author's Computation from raw data in 2012). This statistics suggests that some Malaysian firms are in the growth stage or closer to the maturity stage in their firm life cycle. One of the main characteristics of growth firms or firms closer to maturity is that they could use their experience to make effective capital structure decisions (e.g., optimal debt-equity mix) that maximize shareholders' return. To the best of my knowledge, studies investigating the moderating effects of firm age on the relationship between capital structure (debt) and shareholders' returns have not received much attention in the finance literature. The graph 2 below shows the average age of the sample firms, each year. As expected, the graph reveals that average firm age has been rising each year.

Graph 2



Source: Author's computation from raw data availability for 2008 to 2012. The graph is the average age of the sample firms, each year. Firm age is calculated as log (one plus number of years since date of incorporation).

Moreover, capital structure research is more relevant in a country that has functioning capital market where managers of firms could raise both equity and debt capital. The presence of a functioning debt market provides top managers of Malaysian listed firms with an alternative source of raising long-term debt capital to finance profitable investment opportunities. Malaysia has been successful in developing the capital markets, particularly the debt markets, has experienced significant growth. The issuance of private (corporate) debt securities has been growing and has become a consistent source of raising external finance to fund investment opportunities (IMF and World Bank Technical Note Report, 2013).

The size of Malaysian capital market is comparable to that in more developed market, and is far above its regional and emerging market peers (See Figures 1 and 2). This signifies the importance of the debt (bond) market as a funding source for the private sector, as it represents a significant and growing proportion of the domestic financial assets (Figure 3). The regulatory reform in 2000/2001 has encouraged the issuance of private (corporate) debt securities. The debt market has provided an alternative and consistent source of corporate funding. The different sectors are using the bond market to raise long-term debt because the regulatory framework facilitates corporate debt issuance (IMF and World Bank Technical Note Report, 2013a).

Figure 1. Outstanding Domestic Private Debt Securities (% of GDP) – Composite Comparison

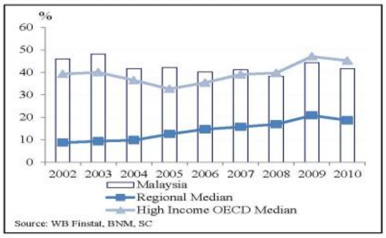


Figure 2. Outstanding Domestic Private Debt Securities (% of GDP) – Country Comparison

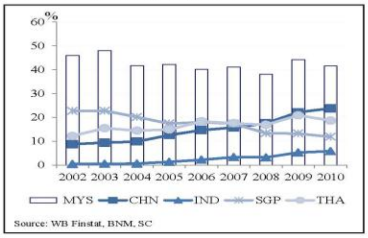
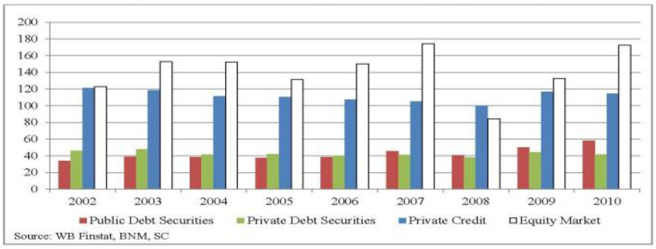


Figure 3. Financial Assets Composition in Malaysia (% of GDP)



Source: International Monetary Fund and World Bank Technical Notes (2013a).

.

According to IMF and World Bank Report, Malaysia has been successful in developing the capital markets, particularly bond markets, over the past 10 years. This development was guided by the initiatives set out under the Capital Market Master plan 1 (CMP 1). The growth over the last 10 years has benefited the private sector. The Capital Market Plan 2 (CMP 2) set outs various measures to grow the capital market including the bond market. The bond market has a strong primary market infrastructure. Debt (Bonds) issuance is expedited through a fully automated system for issuing. The system is sufficiently flexible, allowing different methods of issuance and private placement, among others. The use of the fully automated system for all public and private debt securities enables the authorities to monitor primary market activities and to have a strong and complete market database (IMF and World Bank Technical Note Report, 2013a).

According to IMF and World Bank assessment reports, over the past ten years, the bond market records progressive growth. The total value of the Malaysian bond market stands at RM841.2 billion as at 31 December 2011 and the average annual growth rate between 2001 and 2011 was 10.6 percent. Short-term debt securities were 13.8 percent of outstanding bonds while longer-term bonds or debt (having maturity exceeding one year) making up the remaining 86.2 percent. Corporate debt securities are 40.7 percent of all debt securities outstanding. Net new debt securities issued by the private (corporate) sector in 2011 (gross issues less redemptions) amounted to RM24.5 billion (IMF and World Bank Report, February 2013b).

The presence of a developed debt market provides additional opportunities for managers of Malaysian listed-firms to raise capital needed to finance profitable investment projects that should increase shareholders' returns. One benefit of long term debt finance is the interest tax-shield (Modigliani and Miller, 1963). Managers of Malaysian listed firms increase debt to take advantage of interest tax-shield (as firms can deduct debt interest before paying corporate taxes), which should increase return to shareholders. However, top managers with more experience and education (managerial ability proxies) are those that eventually maximize the benefits of debt interest tax shield.

1.2. Problem Statement

Despite the fact that Malaysian companies' law stated an age requirement for appointment of top managers on the board and that firm should be govern by qualified personnel at the top management, but the top managers still do not utilize debt to increase shareholders' returns.

In Malaysia, until now none of the rules or guidelines specifies the educational level and experience requirements of firm's top-managers. The Malaysian Companies Act (1965) for example stated age requirement for firm top executive directors (Section 122(2)) but the Companies Act did not state the education and experience requirements of the firm top managers on the board.

Furthermore, despite the fact that Malaysian Code of Corporate Governance (MCCG) recommended that Malaysian listed firms should have well-balanced and effective top-managers on the board, but the code did not specify educational qualification and experience requirements of the top-managers on the board. The Malaysian law that governs the appointment of top-managers on the board state that the firm should be govern by effective top management team. The meaning of what constitutes effective top-managers on the board is not clearly defined. This explains why some firms appoint top-managers with low education and experience. Firms that are managed by top managers with low level of education and experience make ineffective capital structure decisions such as utilizing sub-optimal debt and excessive debt that expose the firms to financial distress which adversely affect shareholders' returns.

Turning to theoretical problem, despite the fact that Lemmon et al (2008) recent findings have challenged the reliability of traditional factors affecting capital structure in favour of managerial ability and Modigliani and Miller (1958) has long recognised that top managers' decisions affect shareholders' returns, but researchers still overlooked the effect of top managers' ability on capital structure and shareholders' returns.

Likewise, in spite of the fact that most Malaysian listed firms are closer to maturity stage in their firm life cycle and have acquired business experience to make effective capital structure decisions, but young firms still do not utilize debt to increase shareholders' returns.

As firms grow and mature, the benefits and costs of debt change, and firms can take advantage of debt interest tax-shield benefits to increase debt capital. As firms grow and mature, they acquired substantial experience than young firms. Mature firms are more likely to make effective capital structure decisions such as maximizing the benefits of debt interest tax-shield. Therefore, firm-age should moderate the relationship between debt and shareholders' returns, but this firm-age issue has received inadequate attention in the finance research.

This study is beneficial to investors, policymakers, managers and researchers. Top managers are important to firm survival and value creation. However, if their managerial ability is ignored, there are consequences. The first consequence is that potential investors are deprived of empirical information about the top managers that will guide their investment decisions. The second consequence is that policymakers may not be able to utilize information about the top managers' managerial ability that would provide input on the Malaysian government recent effort to revitalize the private sector through the economic transformation programme. The third consequence is that top managers are deprived of vital information that may motivate them to regularly update their skills, especially in a rapidly changing environment. The fourth consequence is that researchers are not directly accounting for important variables, such as top managers' managerial ability, that affects shareholders' returns and the capital structure of Malaysian listed firms. Last consequence is that firm age factor may be ignored when making debt financing.

1.3. Objectives

The broad objective of this investigation is to determine the relationship among capital structure, managerial ability and shareholders' returns using Malaysian listed-firms' data.

More specifically:

(1) To investigate top managers' managerial ability as a determinant of capital structure;

(2) To examine the moderating effect of top managers' managerial ability on the relationship between debt and shareholders' returns;

(3) To investigate the moderating effect of firm-age on the relationship between debt and shareholders' returns.

1.4. Motivation of Study

Capital structure issues are widely debated in the finance literature, and the debate is never ending. Specifically, firms' capital structure choice is a puzzle (Myers, 1984), and it remains a puzzle to date. Furthermore, researchers ignore the importance of modeling top managers' managerial ability in both capital structure model and return model, because top managers' managerial ability variable is not directly observable. Lemmon et al. (2008) and Graham et al. (2011) argue that the failure to account for unobservable firm-specific factors leads to omitting important variable and thus the inferences we make may be incorrect. Graham et al. (2011) argue that managerial ability is a component of the unobserved firm-specific effects that Lemmon et al. (2008) identify as a determinant of capital structure, but they note that some aspects of managerial ability may change.

Another motivation is that despite the fact that Malaysian listed firms have qualified personnel at the top management, but the top managers still do not utilize debt to increase shareholders' returns. Moreover, on the theoretical motivation, Eiling (2013) includes a human capital factor in her model specification and finds that human capital heterogeneity affects expected stock return using the capital asset pricing model risk-return relationship framework. However, this present study argues that the top managers' (a subset of human capital) managerial ability factor is an important variable to incorporate into the Modigliani and Miller's risk-return relationship framework. As top managers with more experience and education maximize the benefit of an interest tax shield, as emphasized in Modigliani and Miller's (1963) theoretical model, they can increase shareholders' returns. In addition, this study is motivated by Custodio and Metzger (2014) who include firm-age as determinant of firm performance and report that firm-age has positive relationship with firm performance.

1.5. Significance of Study

The theoretical significance of the study is that unlike previous studies (e.g. Custodio and Metzger 2014) that uses dummy variable to measure managerial ability, this study quantifies and develops an index (average) measure of top managers' managerial ability. Secondly, the study integrates the upper echelons theory from the management literature with the M-M and trade-off theories to explain how top managers' managerial ability is related to capital structure and how top managers' managerial ability is related to the shareholders' returns. Upper echelons theory identifies top managers as important human resource that formulates effective strategy that increases returns. Thus, this theory complement the M-M and the trade-off theories because top managers formulate effective strategy such as optimal capital structure mix that maximize the benefits of debt interest tax-shield, top managers can increase shareholders' returns. Third, unlike previous study that assumes that increase in capital structure and shareholders' returns reflect top managers' managerial ability, this study allows top managers' managerial ability to directly affect firms' capital structure and the shareholders' returns. Fourth, from another related angle, the study extends the Modigliani and Miller theory by allowing firm-age to moderate the debt-return relationship. Most Malaysian listed firms are at the growth stage or closer to maturity, in their firm life cycle. As firms grow and mature, the benefits and costs of debt change and firms can take advantage of debt interest tax-shield benefits to increase debt capital. Therefore, firm-age should moderate the relationship between debt and shareholders' returns but this issue has been overlooked in the finance research.

The study also has practical significance to shareholders, financial managers, policy makers and researchers. Firstly, this study reveals to shareholders the need to conduct research to understand the management capital structure strategy. This is because good capital structure decisions that maximize interest tax-shield, and increase the return to shareholders reflects top managers' ability. Secondly, in this era of financial distress, both big and small firms are exposed to bankruptcy, partly because of the mismanagement of financial resources. Top managers are reminded of the need to maintain a sustainable debt level in their capital structure that increases the return to shareholders. Moreover, they are re-informed of the need to regularly update their skills and knowledge base through education and trainings, especially in a business environment that changes rapidly.

Third, regarding the law regulating the appointment of top managers, this study alert policy makers to be specific about the top managers' education and experience requirements, and create the enabling environment for further managerial development. This study fill the gap in the executive leadership and particularly in Malaysian firms' capital structure and asset valuation literatures through systematic assessment of the relationship between top management teams' attributes and firms' capital structure strategy. It is well recognized from the upper-echelon perspective that firm-financing decisions are the reflection of the top management team. In approaching these aspects, this study also provide input to the policy maker (i.e. the government) regarding the recent efforts to revitalize the private sector through the economic transformation program. Additionally, the study informs researchers of the need to model managerial ability factors in the capital structure and equity valuation research.

1.6 Outline of Study

This thesis is divided into five chapters. The organizations of the chapters are as follows: Chapter one starts with introduction and background information on Malaysia top managers' and capital markets. Chapter two presents the relevant management theory, theoretical framework and extensively reviews relevant capital structure theories, empirical evidence on capital structure, empirical evidence on debt-return relationship as well as theory and empirical evidence on firm-age and return relationship. Chapter three discusses data, model specification, estimation method and justification of variables. Chapter four presents discussion of the generalized method of moment (GMM) results. Chapter five summarizes and concludes the study.

BIBLIOGRAPHY

Abdeljawad, I., Mat Nor Fauzias., Ibrahim Izani., and Abdul Rahim, R. (2013).S Dynamic capital structure trade-off theory: evidence from Malaysia. I*nternational Review of Business Research Papers*. 9(6), 102-110.

Acheampong, P., Agalega, E., and Shibu, A.K. (2014). The effect of financial leverage and market size on stock returns on the Ghana Stock Exchange: Evidence from selected stock in the manufacturing sector. *International Journal of Financial Research*, 5(1), 125-134.

Aebi, Vincent, Gabriele Sabato, and Markus Schmid. (2012). Risk management, corporate governance, and bank performance in the financial crisis. *Journal of Banking and Finance* , 8(4), 347-376.

Abor, J. (2005). The effect of capital structure on profitability: an empirical analysis of listed firm in Ghana, *Journal of Risk Finance* 6 (5), 438-447.

Agiomirgianakis, G.M., Magoutas, A.I., and Sfakianakis, G. (2013). Determinants of profitability in the Greek tourism sector revisited: the impact of economic risis. *Journal of Tourism and Hospitality Management*, 1(1), 12-17.

Ahmad, Z., Abdullah, N.M.H., and Roslan, S. (2012). Capital structure effects on firms performance: focusing on consumers and industrial sector on Malaysian firms *International Review of Business Research Papers*, 8(5), 137-155.

Ahmad, H., Fida, B.A., and Zakaria, M. (2013). The co-determinants of capital structure and stock returns: evidence from the Karachi Stock Exchange. *The Lahore Journal of Economics*, 18(1), 81-92.

Akhtar, S. (2011). Capital structure and business cycles. *Accounting and Finance*: 1-23.

Akhtar, S. (2005). The determinants of capital structure for Australian multinational and domestic corporations. *Australian Journal of Management*, 30(2), 321-341.

Akintoye, I. R. (2008), Sensitivity of Performance to Capital Structure. *European Journal of Social Sciences*, 7(1), 3-15.

Alifiah M.N, Salamudin N., and Ahmad, I. (2011).Revisiting financial distress rediction in the development sector in Malaysia. *Business Management Quarterly Review* 2(2), 25-38.

Alom, K. (2013) Capital structure choice of Bangladeshi firms: an empirical investigation. *Asian Journal of Finance and Accounting*, 5 (1), 320-333.

Amihud, Y. (2002). Illiquidity and stock returns: cross-section and time-series effects. *Journal of Financial Markets*, 5, 31-56.

Antoniou, A., Guney, Y., and Paudyal, K. (2008). The determinants of capital structure: capital market versus bank-oriented institutions. *Journal of Financial and Quantitative Analysis*, 43(1), 59-92.

Arellano, M., and Bond, S. (1991). Some tests of specification for panel data: Monte Carlo evidence and an application to employment equations. *Review of Economic Studies*, 58(2), 277-297.

Arellano, M., and Bover, O. (1995). Another look at the instrumental-variable estimation of error components models. *Journal of Econometrics*. 68(2), 29-52.

Ariff, M., Chen F-F., and Neoh, V.H. (2009). Bond markets in Malaysia and Singapore, Penerbit UPM, Malaysia.

Ariff, M., Taufiq, H., and Shamsher, M. (2008). How capital structure adjusts dynamically during financial criseshttp://epublications.bond.edu.au/business.

Baker, M., and Wurgler, J. (2002). Market timing and capital structure. *Journal of Finance*, 57(1), 1-31.

Baker, M., and Wurgler, J. (2006). Investor sentiment and cross-section of stock returns. *Journal of Finance*, 61(4), 1645-1860.

Banz, R.W. (1981). The relationship between return and market value of common stocks. *Journal of Financial Economics*, 9:3-18.

Barney, J.B. (1991). Firm resources and sustained competitive advantage. *Journal of Management* 17 (1), 99-120.

Barton, S.L., and Gordon, P.J. (1988). Corporate strategy and capital structure. *Strategic Management Journal* 9, 623-632.

Bertrand, M. and Schoar, A., 2003. Managing with style: The effect of managers on firm policies. *The Quarterly Journal of Economics*, 118, 1169–1208.

Ben, A.A. (2012). The impact of financing decision on the shareholders' value creation. *Journal of Business Study Quarterly*, 101, 1-14.

Bettis, R.A. (1983). Modern financial theory, corporate strategy and public policy:three conundrums. *Academy of Management Review*, 8, 406-415.

Bevan, A., and Danbolt, J. (2004). Testing for inconsistencies in the estimation of UK capital structure determinants. *Applied Financial Economics*, 14(1):55-66.

Bhagat, S., Bolton, B., and Subramanian, A. (2011). Manager characteristics and capital structure: theory and evidence. *Journal of Financial and Quantitative Analysis* 46(6), 1581-1627.

Bhandari, L.M. (1988). Debt and equity ratio and expected common stock returns: empirical evidence. *Journal of Finance*, 43(2), 507-528.

Blundell, R., and Bond, S. (1998). Initial condition and moment restriction in dynamic panel data models. *Journal of Econometrics*, 87, 115-143.

Bontis, N., Keow, W.C., and Richardson, S. (2000). Intellectual capital and business performance in Malaysian industries. *Journal of Intellectual Capital*, 1(1), 85-100.

Booth, L., Varouj, A., Demirguc-Kunt, A., and Maksimovic, V. (2001). Capital structure in developing countries. *Journal of Finance*, 56(1), 87-130.

Bradley, M., Jarrell, G., and Kim, E.H. (1984). On the existence of an optimal capital structure : theory and evidence. *Journal of Finance*, 39(3), 857-878.

Brierley P., and Bunn, P. (2005). The determination of UK corporate capital gearing. *Bank of England Quarterly Bulletin*, 45(3), 356-366.

Bunn, P., and Young, G. (2004). Corporate capital structure in the United Kingdom: determinants and adjustment, *Bank of England Quarterly Bulletin* 44(3), 321-331.

Carmeli, A., and Tishler, A. (2006). The relative importance of the top management team's managerial skills. *International Journal of Manpower*, 27 (1), 9-36.

Carmeli, A., and Tishler, A. (2004). Resources, capabilities, and the performance of industrial firms: a multivariate analysis. *Managerial and Decision Economics*, 25, 299-315.

Chakraborty, I. (2010). Capital structure in an emerging stock market: the case of India. *Research in International Business and Finance*, 24, 295-314.

Chan, L.K.C., Yasushi H., and Lakonishok, J. (1991). Fundamentals and stock returns in Japan. *Journal of Finance*, 46, 1739–1789.

Chan, K.C., and Chen, N. (1991). Structural and return characteristics of small and large firms. *Journal of Finance*, 46, 1467-1484.

Chang, X., and Dasgupta, S. (2011). Monte Carlo simulations and capital structure Research. *International Review of Finance*, 11:19-55.

Chemmanur, T., Paeglis, I. (2005). Management quality, certification, and initial public offerings. *Journal of Financial Economics*, 76, 331-368.

Chemmanur, T., Paeglis, I., Simonyan, K. (2010). Management quality and equity issue characteristics: a comparison of SEOs and IPOs, *Financial Management*, 39 (4), 1601-1642.

Chen, H.L., Hsu, W.T., and Huang, Y.S (2010). Top management team characteristics, R&D investment and capital structure in the I.T industry. *Small Business Economics*, 35, 319-333.

Chugh, L.C., Meador, J.W, and Kumar, A.S. (2009). Corporate governance and firm performance: evidence from India. *Journal of finance and accountancy*, 5, 2-14.

Coad, A., Segarra, A., and Teruel, M (2013). Like milk or wine: does firm Performance improve with age? *Structural Change and Economic Dynamics*, 24, 173-189.

Coleman, A.K. (2007). The impact of capital structure on the performance of micro-finance institutions. *Journal of Risk Finance*, 8, 56-71.

Colombo, E. (2001). Determinants of corporate capital structure: evidence from Hungarian Firms. *Applied Economics*, 33, 1689-1701.

Crook, T.R., and Combs, J.G. (2011). Does human capital matter? A meta-analysis of the relationship between human capital and firm performance, *Journal of Applied Psychology*, 96(3),

Custodio, C., Metzger, D. (2014). Financial expert CEOs: CEO's work experience and firm's financial policies. *Journal of Financial Economics*, 114, 125-154.

Dawar, V. (2014). Agency theory, capital structure and firm performance: some Indian evidence. *Managerial Finance*, 40(12), 1190-1206.

Deesomsak, R., Paudyal, K., and Pescetto, G. (2004). The determinants of capital structure: evidence from the Asia Pacific region. *Journal of Multinational Financial Management*.14(4/5), 387-405.

Delcoure, N. (2007). The determinants of capital structure in transitional economies. *International Review of Economics and Finance*, 16, 400–415.

Demetriades, P., and Law, S.H. (2006). Finance, institutions and economic development. *International Journal of Finance and Economics*, 11: 245-260.

Dhaliwal, D. S., Heitzman S., and Zhen Li, O. (2006). Taxes, leverage, and the cost of equity capital. *Journal of Accounting Research*, 44(4), 691–723.

Dichev, I.D. (1998). Is the risk of bankruptcy a systematic risk? *Journal of Finance*, 53, 1131-1147.

Dimitrov and Jain (2008) Value relevance of changes in financial leverage beyond growth in assets and GAPP earnings. *Journal of Accounting and Finance*, 23, 199-222.

Eiling, E. (2013). Industry-specific human capital, idiosyncratic risk, and the cross-section of expected stock returns. *The Journal of Finance*, 68 (1), 43-84.

Escriba-Esteve, A., Sanchez-Peinado, L., and Sanchez-Peinado, E. (2009). The influence of top management teams in the strategic orientation and performance of small and medium-sized enterprises. *British Journal of Management*, 20, 581-597.

Faccio, M., Marchica, M., and Mura, R. (2011). Large shareholder diversification and corporate risk taking. *Review of Financial Studies*, 24(11), 3601-3641.

Fama, E.F., and French, K.R. (1992). The cross-section of expected stock returns. *Journal of Finance*, 42(2): 427-465.

Fama, E.F., and French, K.R. (1993). Common risk factors in the returns on stocks and bonds. *Journal of Financial Economics*, 33, 3-56.

Fama, E.F., and Schwartz, W.G. (1977). Asset returns and inflation. *Journal of Financial Economics*, 5(1): 115-146.

Fan, J.P.H., Titman, S., and Twite, G. (2012). An international comparison of capital structure and debt maturity choices. *Journal of Financial and Quantitative Analysis* 47(1), 23-56.

Faulkender, M., Flannery, M.J., Hankins, K.W., and Smith, J.M. (2012). Cash flows and leverage adjustment. *Journal of Financial Economics*, 103, 632-646.

Flannery, M.J. and Rangan, K.P. (2006). Partial adjustment target capital structures. *Journal of Financial Economics*, 79, 469-506.

Flannery, M.J., and Hankins, K.W. (2013). Estimating dynamic panel models in corporate finance. *Journal of Corporate Finance*, 19: 1-19.

Frank, M.Z and Goya, V.K. (2008). Trade-off and pecking order theories of debt. *Handbook of Corporate Finance: Empirical Corporate Finance*, 2, 1-82.

Frank, M.Z., and Goya, V.K. (2009) Capital structure decisions which factors are reliable important? *Financial Management*, 38 (1), 1-37.

Garlappi, L.S., and Yan, H. (2011). Financial distress and cross-section of equity returns. *Journal of Finance*, 66(3), 789-82.

Genimakis, G., and Noulas, A. (2011). The determinant of capital structure choice: evidence from Greek listed companies. *Applied Financial Economics*, 21 (4), 379-397.

George, T., and Hwang, C (2010). A resolution of distress risk and leverage puzzles in the cross section of stock returns. *Journal of Financial Economics*, 96, 56-79.

Gomes, J., and Schmid, L. (2010). Levered returns. *Journal of Finance*, 65(2), *467-494*.

Gormley, T.A., and Matsa, D.A. (2013). Common errors: how to (and not to) control for unobserved heterogeneity. Review of Financial Studies, 27(2), 617-661.

Graham, J.R., and Harvey, C.R. (2001). The theory and practice of corporate finance: evidence from the field. *Journal of Financial Economics*, 60(2/3), 187-243.

Graham, J., and Tucker, A. (2006). Tax shelters and corporate debt policy. *Journal of Financial Economics*, 81, 563-594.

Graham, J.R. (2000). How big are the tax benefits of debt? Journal of Finance, 55(5), 1901-1941.

Graham, J.R., Li, Si and Qiu, Jiaping (2011) Managerial attributes and executive compensation, the *Review of Financial Studies*, 25 (1), 144-186.

Guad, P., Jani, E., Hoesli, M., and Bender, A. (2005). The capital structure of Swiss companies: an empirical analysis using dynamic panel data. *European Financial Management*, 11(1), 51-69.

Guney, Y., Li L., and Fairchild, R. (2011). The relationship between product market competition and capital structure in Chinese listed firms. *International Review of Financial Analysis*, 20, 41-51.

Gungoraydinoglu, A., and Oztekin, O. (2011). Firm and country-level determinants of corporate capital leverage: some new international evidence. *Journal of Corporate Finance*, 17, 1457-1474.

Hamada, R. (1972). The effects of the firm's capital structure on the systematic risk of common stocks. *Journal of Finance*, 27(2), 435-452.

Hambrick, D., and Mason, P. (1984). Upper echelon: the organization as a reflection of its top managers. *Academy of Management Review*, 9, 193-206.

Hambrick, D.C. (2007). Upper echelon theory: an update. The *Academy of Management Review*, 32 (2), 334-343.

Hanousek, J., and Shamshur, A. (2011). A stubborn persistent: is the stability of leverage ratios determined by the stability of the economy. *Journal of Corporate Finance*, 17(5), 1360-1376.

Hansen, L P. (1982). Large sample properties of generalized method of moment Estimators. *Econometrica*, 50, 1029- 1054.

Harris, M., and Raviv, A. (1991). The theory of capital structure. *Journal of Finance* 49, 297-355.

Haron, R., Ibrahim, K., Mat Nor Fauzias. and Ibrahim Izani. (2013). Factors affecting speed of adjustment to target leverage: Malaysia evidence, *Global Business Review*, 14(2), 243-262.

Headd, B., and Kirchhoff, B. (2009). The growth, decline, and survival of small business: an exploratory study of life cycles. *Journal of Small Business Management*, 47(4), 531-550.

Herrmann, P., and Datta, D.K. (2005). Relationships between top management team characteristics and international diversification: empirical investigation. *British Journal of Management*, 16, 69-78.

Herrmann, P., and Datta, D.K. (2006). CEO experiences: effects on the choice of FDI entry Model. *Journal of Management Studies*, 43, 755-778.

Horowitz, J.L., Loughran T., and Savin, N.E. (2000) The disappearing size effect. *Research in Economics*, 54(1), 83-100

Hou, K., and Robinson, D.T (2006). Industry concentration and average stock returns. *Journal of Finance*, 61(4), 1927-1956.

Hsu, W.T., Chen, H.L., and Cheng, C.Y. (2013). Internationalization and firm performance of SMEs: The moderating effects of CEO attributes. Journal of World Business, 48, 1-12.

Huang, C.W., Ho, P.H., Lin, C.Y., Yen, J.F. (2014). Firm-age, idiosyncratic risk, and long-run SEO under performance, *International Review of Economics and Finance*, 34, 246-266.

Hull, R.M., and Michelson, S.E. (1999). The information contents of senior offerings that reduces junior securities. *Quarterly Review of Economics and Finance*, 39, 419-438.

Hwang, S.G., and Song, F.M. (2005). The determinants of capital structure: evidence from China, Working Paper of Hong Kong University. URL http://www.hiebs. hku.hk/working papers.asp?ID=60.

Islam, S.Z., and Khandaker (2015). Firm leverage decisions: does industry matter? *The North American Journal of Economics and Finance*, 31, 94-107

Iquiapaza , R.A., Souza, A.A., and Amaral, H.F. (2007). Capital structure and financing decisions: new test of pecking order theory. *Social Science Research Network*. http://ssrn.com/abstract.

International Monetary Fund and World Bank Technical Notes (Jan., 2013a). Financial sector assessment program: Malaysia bond market development.

International Monetary Fund Country Report (Feb 2013b). Malaysia: Publication of financial sector assessment program documentation— Detailed assessment of implementation of IOSCO objectives and principles of securities regulation. IMF Country Report No. 13/59.

International Monetary Fund and World Bank Country Report (Feb., 2013c). Malaysia: Publication of financial sector assessment program documentation— Detailed assessment of the CPSS-IOSCO principles for financial sector infrastructures. IMF Country

Johnson, T.C., Chebonenko, T., Cunha, I., D-Almeida, F., and Spencer, X. (2011). Endogenous leverage and expected stock returns. *Finance Research Letters*, 8(3):132-145.

Ju, N., Parrino, R., Poteshman, A.E., and Michael S. (2005). Horses and rabbits? Trade-off and optimal capital structure. *Journal of Financial and Quantitative Analysis*, 42(2), 1-23.

Kasseeah, H. (2008). What determines the leverage decisions of Chinese firms? *Journal of Asia Pacific Economy*, 13(3), 354-374.

Kayhan, A., and Titman, S. (2007). Firms' histories and their capital structures. *Journal of Financial Economics*, 83(1), 1-32.

Kayo, E.K., and Kimura, H. (2011). Hierarchical determinants of capital structure, *Journal of Banking and Finance*, 35, 358-371.

Kim, J., Li, Y., and Zhang, L. (2011). Corporate tax avoidance and stock price crash risk: firm level analysis. *Journal of Financial Economics*, 100, 639-662.

Korteweg, A. (2004). Financial leverage and expected stock returns: evidence from pure exchange offers. Working paper, University of Chicago Graduate School of Business.

Lang, L., Ofek, E., and Stulz, R. (1996). Leverage, investment and firm growth. *Journal of Financial Economics*, 40(1), 3-29.

Leary, M.T., and Roberts, M. (2008). Do firms rebalance their capital structure? *Journal of Finance*, 60(6), 2575-2619.

Lemmon, M.L., Roberts, M.R., and Zender, J.F. (2008). Back to the beginning: persistence and the cross-section of corporate capital structure. *Journal of Finance*, 63 (4), 1575-1608.

Lin, F.L., and Chang, T. (2011) Does debt affect firm value in Taiwan? A panel threshold regression analysis. *Applied Economics*, 43(1), 117-128.

Mackay, P., and Phillips, G.M. (2005). How does Industry affect firm financial structure? *Review of Financial Studies*, 18, 1433-1466.

Mahdi S., and Kumars, B. (2009). Study of the relationship between capital structure and performance: evidence from Iran. *International Journal of Business and Management*, 4:97-102.

Masulis, R. (1983). The impact of capital structure change on firm's value, some estimates, *Journal of Finance*, 38(1), 107-126.

Matemilola, B.T., and Bany-Ariffin A.N. (2011). Pecking order theory of capital structure: empirical evidence from dynamic panel data. *International Journal on GSTF Business Review*, 1 (1), 185-189.

Matemilola, B.T., Bany-Ariffin, A.N., and Azman-Saini, W.N.W. (2012). Financial leverage and shareholder's required returns: evidence from South Africa corporate sector. *Transition Studies Review*, 18, 601- 602.

Min-Tsung, C. (2009). Relative effects of debt and equity on corporate operating performance: a quantile regression study, *International Journal Management*, 26(1), 13- 26.

Miller, H. M. (977). Debt and taxes. *Journal of Finance*, 32 (2), 261–275.

Mironov, M. (2013). Taxes, theft, and firm performance. *Journal of Finance*, 68(4), 1441-1472.

Mitton, T. (2007). Why has debt ratios increased for firms in emerging markets? *European Financial Management*, 14(1), 127–151.

Modigliani, F., and Miller, M. H. (1958). The cost of capital, corporate finance and the theory of investment. *American Economic Review*, 48 (3), 261-297.

Modigliani, F., and M. Miller (1963), Corporate Income Taxes and the Cost of Capital, a Correction, *American Economic Review*, 53 (3), 433-443.

Mueller, D.C. (1972). A life cycle theory of the firm. *Journal of Industrial Economics*, 20(3), 199-219.

Muhamad Sori, Z., Abdul Hamid, M.A., Md Nassir, A., and Mohamad, Z.A. (2001). Forecasting corporate failure in Malaysia industrial sectors firms. *Asian Academy of Management Journal*, 6 (1), 15-30.

Muntaz, R., Rauf, S.A., Ahmed, B., and Noreen, U. (2013). Capital structure and financial performance: evidence from Pakistan. *Journal of Basic Applied Science Research*, 3(4), 113-119.

Muradoglu, G.S., and Sivaprasad, S. (2008). An empirical test on leverage and stock returns. *Working Paper*, Cass Business School, London.

Myers, S.C. (2001). Capital structure. *Journal of Economic Perspective*, 15(2), 81-102.

Myers S. C., and Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics*, 13 (2), 187-221.

Myers, S. (1977). Determinants of Corporate Borrowing. *Journal of Financial Economics*, 5, 147-176.

Myers, S. C. (1984). The capital structure puzzle. *Journal of Finance*, 39(3), 575-592.

Nan-Ting, K., and Cheng-Few, L. (2013). Effect of dividend tax and signaling on firm valuation: Evidence from taxable stock dividend announcements. *Pacific Basin Finance Journal*, 25, 157-180.

Nielsen, S. (2010). Top management team diversity : a review of theories and methodology in: *International Journal of Management Reviews*, 12 (3), 301-316.

Nielsen, B., and Nielsen, S. (2011). The role of top management team international orientation in international strategic decision making: The choice of foreign entry mode. *Journal of World Business*, 46, 185-193.

Neus, W and Walter, A. (2008). Lines of research in fifty-years of corporate financial theory. *Zeitschrift für Betriebswirtschaft*.76 (6):50 years after MM: Recent Developments in Corporate Finance, 68(3), 45-65.

Nima S.S., Latifi, M.M., Soroush, S., and Aghabagher, Z.T. (2012). Debt policy and corporate performance: empirical evidence from Tehran Stock Exchange companies. *International Journal of Economics and Finance*, 4(11), 217-224.

Nunkoo, P.K., and Boateng, A. (2010). The empirical determinants of target capital structure and adjustment to long-run target: evidence from Canadian firms. *Applied Economics Letters*, 17, 983-990.

Ogden, J.P., and Wu, S. (2013). Reassessing the effect of growth option on leverage, *Journal of Corporate Finance*, 23, 182-195.

Omet, G. (2006). Ownership structure and capital structure: evidence from Jordanian capital market. *Corporate Ownership and Control*, 3, 99-107.

Ozkan, A. (2001). Determinants of capital structure and adjustment to long-run target: evidence from U.K panel data. *Journal of Business Finance and Accounting*, 28(1&2), 176-198.

Pandey I.M. (2001). Capital structure and the firm characteristics: evidence from an emerging Market, Indian Institute of Management Ahmedabad. *Working Paper* No.10-04.

Pandey I.M . (2005). What drives the shareholder value? *Asian Academy of Management Journal of Accounting and Finance*, 1, 105-120.

Pandey I.M (2010). Financial Management. 10th Edition,Vikas Publishing, New Delhi, India.

Pantzalis, C., and Park, C.P. (2014). Agency costs and equity mispricing. Asia-Pacific *Journal of Financial Studies*, 43, 89-123.

Papadakis, V.M., and Barwise, P. (2002). How much do CEOs and top managers matter in strategic decision-making. *British Journal of Management*, 13, 83-95.

Papadogonas, T.H. (2007). The financial performance of large and small firms: evidence from Greece. *International Journal of Financial Services Management*, 2(1/2), 14-20.

Paydar, M., and Bardai, B. (2012). Leverage behavior of Malaysian manufacturing companies: a case observation of the industrial sector's company in Malaysia, *International Research Journal of Finance and Economics*, 90, 55-65.

Penman, S., Richardson, S., and Tuna, I. (2007). The Book-to-price effect in stock returns: accounting for leverage. *Journal of Accounting Research*, 45, 427-467.

Prahalad, C.K., and Hamel G. (1990). The core competence of the corporation. *Harvard Business Review*, 68(3), 79–91.

Prasad, S.J., Green, C.J., and Murinde, V., (2001a), Company financing, capital structure, and ownership: a survey, and implications for developing economies. *SUERF studies*, 12.

Prasad, S.J., Green, C.J., and Murinde, V. (2001b). Corporate financial structures in developing economies: evidence from a comparative analysis of Thai and Malay Corporations. *Finance and Development Research Programme*, Working Paper, No. 35.

Rajagopal, S. (2010). The portability of capital structure theory: do traditional models fit in an emerging economy? *Journal of Finance and Accountancy*, 2, 2-12.

Rajan, R. G. and Zingales, L. (1995). What do we know about capital structure? some evidence from international data. *Journal of Finance*, 50 (5), 1421-1460.

Ramadan, I.Z. (2013). Debt and performance relationship: evidence from Jordan. *International Journal of Academic Research in Accounting, Finance and Management*, 3(1), 323-331.

Roodman, D. (2009). Practitioners' corner a note on the theme of too many instruments. *Oxford Bulletin of Economics and statistics*, 71(1), 135-158.

Rosenberg, B., Reid, K., and Lanstein, R. (1985). Persuasive evidence of market inefficiency. *Journal of Portfolio Management*, 11, 9 – 17.

Rosli, M.M. (2011). Determinants of small and medium enterprises performance in the Malaysian auto-parts industry. *African Journal of Business Management*, 5(20), 8235-8341.

Ross, Westerfield and Jaffe .(2013). Corporate Finance. 10th Edition, McGraw Hill, United States.

Shukeri, S. N., Shin, O.W., and Shaari, M.S. (2012). Does board of director' characteristics affect firm performance? evidence from Malaysian public listed Companies.*International Business Research*, 5(9), 120-132.

Salawu, R.O. (2007). An empirical analysis of the capital structure of selected quoted companies in Nigeria. *International Journal of Applied Economics*, 1, 16-28.

Sambharya, R.B. (1996). Foreign experience of top management teams and international diversification strategies of U.S. multinational corporations. *Strategic Management Journal*, 17, 739-746.

San, T. O and Heng, B. T. (2011). Capital structure and corporate performance of Malaysian construction sector. *International Journal of Humanities and Social Sciences*, 1(2), 28-36.

Saeedi, A., and Mahmoodi, I. (2011). Capital structure and firm performance: evidence from Iranian Companies. *International Research Journal of Finance and Economics*, issue 70, 19-29.

Sbeiti, W. (2010).The determinants of capital structure: Evidence from the GCC countries. *International Research Journal of Finance and Economics*, 47, 56-82.

Schmidt, A. (2006). The persistence, forecasting, and valuation implications of the tax change component of earnings. *The Accounting Review*, 81, 589-616.

Shah, A., and Khan, S. (2007). Determinants of capital structure: Evidence from Pakistani panel data. *International Review of Business Research Papers*, 3(4), 265- 82.

Sinthupundaja, J., and Navee, C. (2015). Investigation of Thai manufacturing public firms' characteristics and financial strategies towards financial performances improvement. *Journal of Economics, Business and Management*, 3(3), 331-337.

Stattman, D. (1980), Book values and stock returns: the Chicago MBA. *A Journal of Selected Papers*, 4, 25 – 45.

Stearns, L.B., and Mizruchi, M.S. (1993). Board composition and corporate financing: the impact of financial institution representation on borrowing, *Academy of Management Journal* 36, 603-618.

Stepanyan, G.G. (2013). Revisiting firm life cycle theory for new directions in finance. College of Business and Economics, available at SSRN: http://ssrn.com/abstract.

Stinchcombe, A. (1965). Social structure and organizations. In March, J.G. (Ed), *Handbook of organizations*. Rand McNally, Chicago, 142-193.

Supanvanij, J. (2006). Capital structure: Asian firms versus multinational firms in Asia. *The Journal of American Academy of Business*. Cambridge, 10(1):324-330.

Switzer, L., and Bourdon, J.F. (2011). Management quality and operating performance: evidence from Canadian IPOs. *International Journal of Business*, 16(2): 1-17.

Titman, S., and Wessels, R. (1988). The determinants of capital structure choice. *Journal of Finance*, 43(1): 1-19.

Titman, S., and Tsyplakov, S. (2007). A dynamic model of optimal capital structure. *Review of Finance*, 11, 401-51.

Umar, M., Tanveer, Z., Aslam, S., and Sajid, M. (2012). Impact of capital structure on firm's financial performance: Evidence from Pakistan. *Research Journal of Finance and Accounting*, 3(9), 1-12.

Wally, S., and Baum, J. (1994). Personal and structural determinants of the pace of strategic decision making, *Academy of Management Journal*, 37, 932-956.

Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic Management Journal*, 5(2), 171–180.

Wernerfelt, B. (1995). The resource-based view of the firm: ten years after. *Strategic Management Journal*, 16(3), 171–174.

Westgaard, S., Eidet, A., Frydenberg, S., and Grosas, T. (2008). Investigating the capital structure of UK real estate companies. *Journal of Property Research*, 25(1), 61-87.

Windmeijer, F. (2005). A finite sample correction for the variance of linear efficient two step GMM estimations, *Journal of Econometrics*, 126, 25-51.

Yang, B. (2013) Dynamic Capital structure with heterogeneous beliefs and market timing. *Journal of Corporate Finance*, 22, 234-277.

Zeitun, R., and Tian, G. (2007). Capital structure and corporate performance: evidence from Jordan. *Australasian Accounting Business and Finance Journal*, 1, 40-53.

Zuraidah A., Norhasniza M.H. A., and Shashazrina R. (2012). Capital structure effect on firms' performance: focusing on consumers and industrials sectors on Malaysian firms. *International Review of Business Research Papers* 8 (5), 137-155.