AUSTRALIAN JOURNAL OF BASIC AND APPLIED SCIENCES

ISSN:1991-8178 EISSN: 2309-8414
Journal home page: www.ajbasweb.com

"An Empirical Investigation of Trade Off Theory on Hybrid Securities: Evidence from Malaysia Islamic Capital Market "

Mohamad Nizam Jaafar, Ismail Ahmad, Rosalan Ali and Hairulnizam Hashim

Faculty of Business Management,Universiti Teknologi Mara, 40450 Shah Alam, Malaysia.

Address For Correspondence:
Mohamad Nizam Jaafar, Faculty of Business Management,Universiti Teknologi Mara, 40450 Shah Alam, Malaysia.
E-mail: mnizam7520@salam.uitm.edu.my

ARTICLE INFO

Article history:
Received 3 March 2016
Accepted 2 May 2016
published 26 May 2016

Keywords:
Capital structure; Trade off Theory; panel data; GMM

ABSTRACT

Capital structure choice is essentially significant in corporate financial management due to their influence in mutually on return and risk to stakeholders. Trade off Theory (Modigliani and Miller, 1958) explicates the capital structure from the perspective of the cost-benefit of debt. Since interest payments can be considered as expenses and deducted from corporate profit as costs but the expenses for equity which is divided is not allow to be deducted as a cost. Therefore, by adding debt to its capital structure, can increase the firm's after tax cash flow or profit as the firm can lower the expected tax liability. The objectives of this study are to verify the existence of the most basic theory of capital stucture namely Trade off (Modigliani and Miller, 1958) and to examine the determinants of hybrid securities issuance among the shariah compliant firms in Malaysia Islamic capital market. Notwithstanding Malaysia's position as one of the major players of Islamic Financial Market industries, there are still lack of studies has been carried out to investigate the impact of capital market theory specifically on the hybrid securities. As such, this study is to expand the literature review by providing comprehensive analysis of the determinants of hybrid capital structure and to test the existence of the Trade off theory (Modigliani and Miller, 1958) on shariah compliant firms in Malaysia. We use panel data of 50 companies that have been issuing the hybrid securities from the year of 2004- 2012. The outcomes of the studies are based on the dynamic model GMM estimation for the determinants of hybrid securities

INTRODUCTION

The static trade-off theory promulgates that firms have the ideal capital structures, which they determine by trading off the costs against the benefits of the employ of debt and equity. Firm raise capital by means of debt has the advantages of having no dilution of ownership interest in its firm and leveraging on tax benefit from interest payment. Nonetheless, this endeavour will increase the firm's risk toward bankruptcy. Meanwhile by issuing equity, it helps the firm in expanding the business without having fixed commitment and receive continues support from the existing shareholders. However, this activity is considered to be very costly as compared to raising capital via other means of instruments. In addition, it is very essential for the firm to issue the appropriate type of securities or capital as each of the security has its own different influence on the firm's value. The combination of debt and equity forms firm's capital structure. Nevertheless, the current studies have revealed that there is a considerable shift from a focus on a static trade off model to other capital structure theories in order to search for further explanation on corporate capital structure behavior (Jensen and Meckling, 1976; Smith and Warner, 1979; Pinegar and Wilbricht, 1989; Lubatkin and Chatterjee, 1994; Elliot 2002; Brounen, 2004; Sadeghian *et al*; 2012).

To Cite This Article: Mohamad Nizam Jaafar, Ismail Ahmad, Rosalan Ali and Hairulnizam Hashim., "An Empirical Investigation of Trade Off Theory on Hybrid Securities: Evidence from Malaysia Islamic Capital Market ". ***Aust. J. Basic & Appl. Sci.,*** *10(11): 9-15, 2016*

In conjunction with the notion of the firm's risk and return, an interesting question arises what motivates a company to issue a certain type of securities? This include issuance of debt, equity or even more complex securities namely hybrid securities. The hybrid instrument has both the combination features of equity and debt. Hybrid securities are very important in the Capital Market. Hybrid securities are very effective to assist the firms to minimize tax effective rate by issuing debt like hybrid which in line with the theory of Trade off. The profitable firms that have limited non debt tax shields and have high effective marginal tax rates, might leverage the gain of direct tax advantage due to interest payments deriving from debt-like hybrid. These findings are supported by Mackie-Mason (1990); Dhaliwal (1992) and Arshanapalli (2014) who claim that tax benefit firms move away from debt and opted for debt like hybrid securities as an option when effective tax rate are high.

Besides that, hybrid securities provide the solution for the conflict of interest between manager and shareholders. In general, the firms always raise the capital either in the form debt or equity. Nonetheless, there is always of contradict of interest between manager and shareholder. The limited liability of equity holder offers them greater value for investing in more risky projects. This is because when the investment work in favour of the firm, the shareholder have unbounded upside potential. However, if the investment fails, the debt holder will have the bear all the losses. The bondholder respond the unfavourable risk that being expose to them by charging higher yield to the issuer/shareholder to compensate their risk which known as the cost of risk shifting. As a solution for the said issue, hybrid securities such as convertible bond, allowed the manager to venture into high risk business with lower cost as the convertible bond is carrying lower interest rate than the normal debt instrument. In addition, the feature of conversion option in the convertible bond, permit the bond holder to gain maximize upside prospect of the business venture. The convertible also reduce the value of the shareholders' residual claim which discourages the shareholder to endeavour in more risk projects. This argument is in line with risk shifting theory (Green 1984). Besides, the literature also offers several other hypothesis that motivated the issuance of hybrid issuance namely backdoor equity financing (Stein 1992) and sequential financing problem (Mayers 1998).

Despite Islamic finance does not have any element of interest in its activities, it still has the characteristics of both debt and equity issuances and the requirement of hybrid securities. To-date, most of the studies are only focus their study on developed countries' capital market such as the USA (Titman and Wessels, 1988; Shyam-Sunder and Myers, 1999; Fama and French, 2002) and the UK (Marsh, 1982; Bevan and Danbolt, 2002) and very limited study conducted based on the newly emerged capital market namely Islamic capital market. A remarkable enquiry that arises on this study is what motivates the shariah compliance firm to issue hybrid security. Does shariah compliance firms have the similar motivation as what being inspired by conventional firms specifically based trade off theory (Modigliani and Miller, 1958)

The paper is organized as follows. Section 2 briefly summarize the theory capital structure particularly on the hybrid capital structure. Section 3 discusses the data and empirical method used in this study, Section 4 presents the empirical results of the analysis and Section 5 concludes the paper.

2.0 Literature Review:

The foundation of the modern theory of capital structure was initiated from Modigliani-Miller (M&M) theorem, established by Franco Modigliani and Merton Miller (1958). This theory stated that a firm's capital structure choice does not affect the firm's value when the capital market is prefect or efficient with the assumption of there is no taxes imposed, no issuing cost for raising capital via debt or equity and no agency cost respectively. Nevertheless, it is contradict to the real world practice which eventually attribute to several other theories were also found to challenge this studies and define the optimal capital structure for the firms in a various perspective such as agency theory, (Jensen and Meckling, 1976, Smith and Warner 1979, Pinegar and Wilbricht 1989, Lubatkin and Chatterjee 1994, Elliot 2002), asymmetric information, (Akerlof G. A, 1970 and Myers and Majluf 1984, Clarke and Shastri, 2001, and Hasbrouck, 2005), pecking order theory, (Myers and Majluf, 1984, Mayers, 2001, Fama and French, 1998, 2005), bankruptcy cost, (Berger *et al*, 1995, Florackis, 2008), risk shifting, (Green, 1984, Lewis C.M *et al*, 1999, 2004), backdoor equity financing, (Stein, 1992, C.M. Lewis *et al*, 1999, 2004).

Trade off theory explicates the capital structure from the perspective of the cost-benefit of debt. Since interest payments can be considered as expenses and deducted from corporate profit as costs but the expenses for equity which is divided is not allow to be deducted as a cost. Therefore, by adding debt to its capital structure, can increase the firm's after tax cash flow or profit as the firm can lower the expected tax liability. This would imply that most firms would opt for high leverage ratios due to the tax advantage. Trade off theory is proposing that there is some certain level of debt on which the value of the firm is maximized. This point level or threshold of debt can be address as the optimal (target) level of capital structure.

Green (1984) proposed the use of hybrid financing as a substituted for straight debt in order to reduce agency cost attribute from the conflict of interest between bondholder and stockholder. According to Jensen and Meckling (1976), the limited liability of equity holder gives them greater value for investing in more risky projects. This is because when the investment work in favor of the firm, the shareholder have unbounded upside

potential. However, if the investment fails, the debt holder will have the bear all the losses. This is a risk shifting problem. The bondholder respond the unfavorable risk that being expose to them by charging higher yield to the issuer/shareholder to compensate their risk which known as the cost of risk shifting. The feature of conversion option in the hybrid security such as convertible bond, permit the bond holder to gain maximize upside prospect of the business venture. Besides that, the convertible also reduce the value of the shareholders' residual claim which discourages the shareholder to endeavour in more risk projects. Thus, Green (1984) predicts that convertible bonds are a substitute for straight debt and the substitution of convertibles is most likely to occur in firms facing significant risk incentive problems.

Besides addressing on the conflict of interest between the managers, Stein (1992) proposed that backdoor equity financing theory that the firms are able to delay issuance of equity via hybrid financing when they face high degree of informational asymmetries cost making less attractive to issue equity. As such, convertible debt stand for a financing option that diminished the unpleasant selection costs of an immediate sale of equity. This facilitates the firms to issue equity without having to acquire higher financial risk. Thus, Lewis *et al*. (1999) argue that although convertible debt issuers may have firm characteristics that are similar to equity issuers, leveraged firms that are optimistic about their future investment opportunities but that are subject to significant information asymmetries, are more likely to choose convertible debt or straight debt. However, Stein (1992) notes should the firm that having significant asymmetric information proceed with the issuance of straight debt may attribute to firms to face other value decrease costs. When the financial distress is very expensive, firms that are highly gearing and have poor future cash flow will relinquish straight debt issues. Consequently, financial distress costs prevail over unfavourable selection costs. Stein (1992) concludes that convertible bonds are a replacement for equity and that this substitute is most probable to take place in firms facing major information asymmetries and high financial distress costs.

3.0 Empirical Methodology and Measurement of the Variables:

The sample consists of 50 listed firms that are *shariah* compliance listed on Bursa Malaysia and Ace Market over the years 2004 – 2012. The companies selected are consisting of the one that issue hybrid securities namely convertibles bond and loan stock during the period under review.

Generally, there are various types of hybrid instruments in Malaysia capital market namely bond with convertible loan, bond with warrant, structured warrant, company warrant, loan stock and others. Nevertheless, due to limited issuance by the firms, we only include convertible bond and loan stock for our model of study. Besides, we are also assuming that all hybrid issuance securities by *shariah* compliant firms as the Islamic hybrid securities. This is because not all *shariah* compliant firms are issuing Islamic hybrid securities per se and there are also under some circumstances that non *shariah* firms are issuing Islamic hybrid products. Hopefully, in the future, all these *shariah* compliant firms will only issue Islamic hybrid securities for capital requirement.

3.1 Empirical Model:

To test the trade off theory in the hybrid capital structure in the Malaysia Islamic capital market, the hybrid leverage ratios of individual firms are model as a function of several firm specific factors in a cross sectional framework. As such, this study will incorporate all the attributes that were described in the next section. The general estimation model is as follows:-

Regression based on OLS

$$LEV\,it = \alpha + \beta i1SIZE\,it + \beta i2AG\,it + \beta i3TS\,it + \beta i4NTSit + \beta i5PROFit + \beta i6TAit + \beta i7GRit + \beta i8FR + \beta i9FF\,Uit \quad \textbf{(1)}$$

where LEV it is measured by total hybrid capital namely convertible bond and loan stock divided by the firm's shareholders fund. The basic regression method applied in this model will be the Ordinary Least Squares (OLS).

However, after several testing on the respective model, we estimated our model of the study via dynamic estimator namely General Method of Moment (GMM). The following is the explanation on the theoretical relationship between independent variable and the variables that suggested in the literature as determinants of hybrid securities issuance. GMM is explained based on OLS matrices. Referring to the basic assumption of OLS, error term $\bar{u} = 0$.

Therefore, from the regression $y = b_X + u$, we can get the coefficient, $b = (X'X')^{-1}X'y^{51,}$ n the form of matrices, and $\hat{y} = X(X'X)^{-1}X'y = Pxy$ because $y = bx + u$, where P_x is a projection matrix. Based on the assumptions of the instruments, $cov(z, x) \neq 0$ and $cov(z, \varepsilon) = 0$, the IV estimator can be written as the following:

$E\{u_i,z_i\} = E\{(y_i - x'_ib)z_i\} = 0$

where z is T x k instruments which satisfy the moment condition, $E(Z'_iu_i) = 0$; and

$b_{iv} = (Z'X)^{-1}Z'y$ if endogenous variables are just identified.

When it is over identification, then the instrument matrix is not symmetric and is not possible to calculate. To resolve this, we require minimizing quadric form with weighting matrix W_N

$Q_N(b) = [N^{-1}Z'(y - Xb)]'W_N[N^{-1}Z'(y-Xb)]$ **(2)**

This entailed $X'ZW_NZ'y = X'ZW_NZ'Xb_{iv}$, and

$b_{iv} = (X'ZW_NZ'X)^{-1}X'ZW_NZ'y$

as W_N pursue the method of moment with minimising the quadric loss function, the optimal weighting

$$N^{-1}\sum_{i=1}^{N} z_i z'_i \quad \textbf{(3)}$$

The IV is a special case of GMM. When an equation is just identified, IV and GMM turn up at the same result. Unlike the IV estimator, GMM does not require i.i.d of error term. Just like IV, coefficients of GMM is decided by:

$B_{GMM} = (X'ZW_{NZ}Z'X)^{-1}X'ZW_NZ'y.$ **(4)**

The estimator of GMM on $W_{N,}$ $W_N = (N^{-1}\sum \hat{U}^2 z_i z'_i)^{-1} = (Z'uu'Z)^{-1}$ [53] where weighing matrix W_N is a covariance matrix. Thus, the GMM allows heteroskedasticity of $u_{i,}$ (Davidson and Mackinnon,2004; Baum, 2006; Verbeek, 2008). Therefore, the GMM estimator becomes;

$b_{GMM}=(X'Z(Z'uu'Z)^{-1}X'Z(Z'uuZ)^{-1}Z'y$ **(5)**

Therefore, the study includes a lagged dependent variable and new error term on the right hand of the equation 1.

Model 1:

$LEV\ it = \alpha_{(I,t-1)} + \varphi_1 SIZE\ it + \varphi_2 AG\ it + \varphi_3 TS\ it + \varphi_4 NTSit + \varphi_5 PROF\ it + \sigma i6\ TA\ it + \sigma i7 GR\ it + \sigma i8 FR + \sigma i9 FF\ it + \sigma i10 SM\ it + \sigma i_{11} BMit + \sigma i_{12} ECON\ it + \sigma i_{13} INT\ it + Uit + E\ it$ **(6)**

i. Company size (SIZE):

Natural logarithm of total assets (Warner, 1977; Titman & Wessel, 1988; Rajan & Zingales, 1995; Gaud *et al*, 2005; Kim C.S, 2010). The issuing of capital is based on the size of the company. The established firm is more preferable to issue debt in line with trade off theory, Tinman & Wessel (1988). It recommended that the larger company has the lesser possibility of default which feature to better entrance to credit market. Besides that, large firms have a tendency to be more diversified and have low bankruptcy risk in contrast to the smaller firms.

ii. Age (AG):

Various capital structure studies considered age of the firm as one of the important determinant of capital structure, Bhaduri (2002), Andres *et al*. (2005), Crabbe and Post (1994.

iii. Tax consideration:

a) Debt Tax Shield (TS):

The ratio of tax paid over total asset (Suchard and Singh, 2006). According to trade off theory (Modigliani & Miller, 1963), the firms that record high tax shield are more likely to take advantage of interest deduction from tax by issuing debt. By opting to debt financing, the features of interest that allow tax deductibility would raise the firm's after tax cash flow. There are several evidence shown that tax benefits are among the reasons for the firm's in selecting its financing option.(Graham, 1996, Titman and Wessel,1998)

b) Non-debt tax shield (NTS):

The ratio of depreciation to total asset- Titman and Wessels (1988) , Ozkan(2001).As suggested by the tradeoff theory (Modigliani & Miller, 1963), firms can use non debt tax shield such as depreciation to save corporate tax. Therefore, a higher non debt tax shield such as depreciation and investment tax credit deduction, lower the possibility tax benefit of debt and the firms opt issuance of other than debt i.e. equity, convertible debt.

iv. Profitability (PROF):

Earning before interest and Tax divided by total assets. (Rajan & Zingales, 1995; Gaud *et al*, 2005). The calculation of earning before interest and Tax divided by total assets for ratio of profitability is widely used by many studies. The firms optimal financing and success in assets utilizations are reflected in the firms' profitability as stated by Myers (1977) in pecking order theory, Myers and Majluf (1984) and Booth *et al.* (2001).

v. Asset Tangibility (TA):

The ratio of total fixed asset to total asset.(Chen 2004; Guad *et al*; 2005). This proxy is related to the trade off theory (Modigliani & Miller, 1963). The firms that recorded higher asset tangibility reflecting that the firms are having more collateral. As such, they have more tendencies to raise capital via issuing debt with lower cost

of interest in conjunction with firm's low risk of bankruptcy. On the other hand, the firms that with low collateral will have to opt for either equity or warrant. The trade-off theory predicts a positive association between the tangibility of assets and leverage.

vi. Growth opportunity (GR):

Annual growth rate in sales (Titman & Wessel, 1998; Chen,2004; Kim C.S, 2010).There are various measure have been adopted by various studies. Rajan and Zingales (1995) is using market to book ratio as the proxy for growth. Nevertheless, according to Titman and Wessel (1998) and further supported by Chen *et al* (2005), the growth of revenue reflect better proxy for the growth opportunity. The growth opportunities is found by Chen and Zhao (2004) as one of the security issuance choice determinants where their study shows a stronger reliance of firms with higher growth opportunities on debt financing rather than equity financing. This also supported by (Ghosh, *et al*, 2000; Anderson and Makhija, 1999; Prowse ,1990; Rajan and Zingales, 1995; Smith and Watts, 1992; Stulz, 1990; Titman and Wessels, 1988; Kim and Sorensen, 1986.

vii. Financial Flexibility (FF):

Cash and Marketable Securities over current assets (Singh and Hodder, 2000).This variable is only being recently applied in the study of the determinant of corporate capital structure. In general, the current literature has given only one description on financial flexibility namely the ratio of cash and marketable securities over current assets. (Singh and Hodder, 2000, Upneja and Dalbor, 2000 and Chen and Jiang, 2001).

viii. Financial Risk (FR):

Long term debt to total asset (Suchard and Singh ,2006). According to Suchard and Singh (2006), the firms that have high financial risk will be more likely to issue equity or from the prospective of hybrid instrument will be warrant. This is in line with pecking order model, financial distress cost and sequential financing model hypothesis respectively. This is in conjunction with the result found in Jung *et al* (1996) that examine the selection between straight debt and equity.

3.0 Descriptive analysis

Variables	Mean	Median	Std Dev	Skewness	Kurtosis	Jerque Bera
Lev	0.0921	0.068	0.099	4.987	41.24	19070.19***
						0.0000
AGE	27.95	25.00	17.45	0.9688	4.22	64.21***
						0.0000
SIZE	6.07	6.01	0.069	0.6229	3.82	27.28***
						0.0000
TS	0.0082	0.0079	0.008	-0.1213	15.28	27.28***
						0.0000
NTS	0.0169	0.0133	0.013	3.8768	22.69	5468,7***
						0.0000
PROF	0.0739	0.07	0.068	-1.478	24.62	5815***
						0.0000
TA	0.448	0.419	0.13	1.5	6.735	279.87***
						0.0000
GR	0.1806	0.17	1.635	14.33	142.69	215803***
						0.0000
FR	0.3838	0.375	0.175	-0.11	2.47	4.17***
						0.0000
FF	0.1248	0.114	0.1101	1.67	14.039	1637.56***
						0.0000
SM	138.986	144.66	26.4733	-0.925	3.15	39.43***
						0.0000
BM	84.207	85	8.417	0.022	1.39	27.89***
						0.0000
GDP	4.871	5.58	2.659	-1.725	4.607	156.43***
						0.0000
BFR	6.283	6.27	0.3739	-0.644	2.536	20.21***
						0.0000

In addition to the mean – median comparison and standard deviation, the data is also tested using numerous methods such as the skewness test, kurtosis, the Jarque Bera respectively. This is to discover the data under review are normally distributed or otherwise.

Table 1, reflect that the data under review are not normally distributed. Exception to LEV, SIZE, TANG, and FR the values of mean and median, as shown in column one and two, are not the equal. Only SIZE, Tangibility, FR, Stock Market, Bond Market and Interest rate have the skewness of the variables, equal to approximately zero. Finally, the values of Jarque-Bera, as indicated in the table, apart from being significant, it

rejects the hypothesis that the data are normally distributed. These preliminary findings reveal that the estimation model using OLS could not generate better model. Instead, GMM is more suitable and expected to produce better estimation model as GMM manage to address the issue of heterocedasticity and endorgenity in the data under review

3.1 Empirical Result and Discussion:

leverage	Coef.	Std Error	Z	P>[z]	[95% conf. Interval]	
leverage						
L1	0.0492	0.0263	1.87	0.042	-0.01770	0.729
Age	0.0612	0.0319	1.92	0.047	0.0152	1.531
Size	0.8321	0.3438	2.42	0.014	0.0551	4.781
Tax shield	0.6903	0.1717	4.02	0.000	0.3115	2.102
Non tax shield	-0.1143	0.0386	-2.96	0.003	-2.1541	3.445
Profitability	0.9112	0.4821	1.89	0.041	-0.2313	4.123
Tangibility	0.7174	0.2104	3.41	0.000	0.0512	1.714
Growth	0.0731	0.0234	3.13	0.001	-2.0134	2.123
Financial Risk	0.0313	0.0080	3.92	0.000	-2.0121	2.124
Financial Flexibility	0.2231	0.0538	4.15	0.000	0.2094	0.7367
SM	-0.0034	0.0016	-2.13	0.033	0.00023	0.00056
BM	0.0056	0.0030	1.89	0.049	0.00011	0.00061
GDP growth	0.0321	0.0226	1.42	0.042	0.00413	0.54321
cons	2.323	0.7328	3.17	0.031	0.0213	6.123
No of instruments	40					
No of observations	173					
Wald chi2(12)	18.33					
Prob> chi 2	0.1061					
Arrelano Bond test for AR(1) in first differences : z = -1.72 pr > z = 0.086						
Arrelano Bond test for AR(2) in first differences : z = -0.75 pr > z = 0.454						

Sargan test of overid. Restrictions : chic^2 = 371.79 prob > chic^2 = 0.823
Sargan test of overid. Restrictions : chic^2 = 371.79 prob > chic^2 = 0.823
Sargan test, chic^2 is insignificant – the model is not exogenous.

The model shows a positive correlation between leverage CB and age, size, tax shield, profitability, FR, growth, tangibility, BM, and GDP growth. Nevertheless, it has a negative relationship with non tax shield and SM. The results show that TS has a positive significant relationship with debt hybrid and this indicated that the theory of trade off is applicable to the Islamic Malaysia Capital market.

Meanwhile, the financial risk and profitability are considered the most determinant factors for issuing convertible bond and loan stock. These results suggest that, the firms that expose with high risk but strong financial position will choose convertible bond. This can be related to the scenario in Malaysia where the authorities emphasize on conservative credit policies. Malaysian financial institutions generally offer debt to strong financial position firms that hold low risk of financial distress or bankruptcy. Since the high risk firms but profitable are difficult to secure additional credit facility from the financial institutions, there always opt for hybrid security of convertible bond as proposed by risk shifting theory where hybrid securities allow the high risk firm to further venture into riskier business.

4. Conclusion:

This research has established the determinants that are significant in hybrid securities issuance for debt feature hybrid signify by convertible bond and loan stocks. The estimation result for hybrid securities of convertible bond and loan stock demonstrates that coefficient for Age, Size, Tax Shield, Profitability, Financial Risk, Financial Flexibility, Tangibility, GDP, interest and Bond Market are having significant positive relation with the model under review. Meanwhile NTS and SM show a negative correlation. TS is the proxy for Trade off theory and it show a positive correlation. As such, Trade off theory is applicable to Malaysia Islamic Capital market. In addition, from the model also reveal that risk and growth are considered as the most determinant factors for issuing convertible bond and loan stock. By issuing hybrid securities of convertible bond, the firms are able to achieve tax saving and minimize the of conflict of interest between debt manager who decline to venture high risk and equity stakeholder that favour to venture into high risk business respectively. As such, risk shifting theory that proposed by Green (1984) is also prevail in Malaysia Islamic capital market.

REFERENCES

Anderson, C.W., A.K. Makhija, 1999. Deregulation, disintermediation and agency costs of debt: evidence from Japan. *Journal of Financial Economics,* 51(2): 309-339.

Bhaduri, S., 2002. Determinants of corporate borrowing : Some evidence from the Indian corporate structure. Journal of Economics and Finance, 26-2. Summer. 200-215

Beaver, W., C. Eger, S. Ryan, M. Wolfson, 1989. Financial reporting, supplemental disclosures, and bank share prices. *Journal of Accounting Research, 27*(2): 157-178.

Fama, F., R. French, 1998. Taxes, Financing Decisions, and Firm Value. *Journal of Finance,* 53(3), 819.

Florackis, C., 2008. Agency costs and corporate governance mechanisms: evidence for UK firms. *International Journal of Managerial Finance*, 4(1): 37-59.

Friend, I. and J. Hasbrouk, 1988. Determinants of Capital Structure, *Research in Finance, V7, JAI Press Inc*., 1- 19.

Ghosh, A., F. Cai, W. Li, 2000. The determinants of capital structure. *American Business Review* 18(2): 128-132

Green, R., 1984. Investment Incentives, Debt, and Warrants. *Journal of Financial Economics* 13 (March), 115-136.

Hovakimian, A., T. Opler, S. Titman, 2001. The debt equity choice. *Journal of financial quantitative Analysis*, 36: 1-24

Hovakimian, A. and I. Hutton, 2010. Market feedback and equity issuance: Evidence from repeat equity issues. Journal of Financial and Quantitative Analysis, 45(03): 739-762

Jensen, M.C. and W.H. Meckling, 1976. Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, V3, 305-360.

Jensen, M.C., 1986. Agency Costs of Free Cash Flow, Corporate Finance and Takeovers, *American Economic Review*, V76, 323-329.

Jensen, M., P. Geralg, S. Thomas, 1992. Simultaneous Determination of Insider Ownership, Debt, and Dividend policies. *Journal of financial and QuantitativeAnalysis*, 27: 247-263.

Kim, C.S., D.C. Mauer, A.E. Sherman, 1998. The determinant of corporate liquidity: Theory and evidence. *Journal of financial and qualitative analysis*, 33: 335-358

Kim Wi Saeng & Eric H. Sorenson, 1986. Evidence on the Impact of Agency Costs of Debts in Corporate debt Policy. *Journal of Financial Economics* **22**:189-205.

Marsh, P., 1982. The Choice between Equity and Debt: An Empirical Study. *Journal of Finance*, 37(1), 121-144

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

Modigliani, F., M. Miller, 1963. Corporate Income Taxes and the Cost of Capital, A correction. *American Economic Review*, 53: 433-443.

Myers, S.C., 1998. Why firms issue Convertible bonds : The matching financial and real investment options. *Journal of Financial Economics*, 47: 83-102

Myers, S.C., 2000. Convertible bonds : Matching financial and real option. *Journal of Applied Corporate Finance*, 13(1): 8-21

Myers, S.C., 2001. Capital Structure. *Journal of Economic Perspectives*, 15(2): 81-102.

Myers, S.C. and N.S. Majluf, 1984. Corporate Financing and Investment Decisions When Firms have Information That Investors Do Not Have. *Journal of Financial Economics*, V13, 187-221.

Pinegar, J.M. and L.Wilbricht, 1989. What Managers Think of Capital Structure Theory: A Survey*"*, *Financial Management*, (Winter, 1989), 82-91

Rajan, R.G. and L. Zingales, 1995. What Do We Know about Capital Structure? Some Evidence from International Data, *Journal of Finance*, V5 0, N5, 1421 - 1460.

Shyam-Sunder, L., S.C. Myers, 1999. Testing static tradeoff against pecking order models of capital structure. *Journal of Financial Economics*, 51(2): 219-244.

Smith, C., and J. Warner, 1979. On Financial Contracting: An Analysis of Bond Covenants. *Journal of Financial Economics* (June), 117-162.

Smith, C. and R. Watts, 1992. 'The Investment Opportunity Set and Corporate financing, Dividend, and Compensation Policy'. *Journal of Financial Economics*, 32: 263-292

Stein, J.C., 1992. Convertible debt as backdoor equity financing. *Journal of Financial Economics*, 32: 3-21

Stulz, R., 1990. Managerial Discretion and Optimal Financing Policies. *Journal of Financial Economics*, **26:** 3-27

Suchard, J.A., M. Singh, 1996. The determinants of the hybrid securities issuance decision for Australian firms. *Pacific Basin Finance Journal*, 14: 269-290

Titman, S., R. Wessels, 1988. The Determinants of Capital Structure Choice. *Journal of Finance*, 43(1): 1-19.

Warner, J., 1977. Bankruptcy Costs: Some Evidence. *Journal of Finance*, 32: 337-347.