

**LEVERAGE AND FIRM PERFORMANCE: EVIDENCE FROM  
LISTED *SHARI'AH*-COMPLIANT COMPANIES ON BURSA  
MALAYSIA**

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## AUTHOR DECLARATION

I hereby declare that the work in this research is my own except for quotations and summaries which has been duly acknowledged.

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## ABSTRAK

Pemilihan struktur hutang-ekuiti amat penting dalam dasar pembiayaan syarikat. Pasaran modal merupakan bahagian penting dalam sistem kewangan masa kini. Syarikat patuh syariah mewakili bahagian yang besar dalam pasaran modal di Malaysia, dengan purata masing-masing sebanyak 35% dan 56% daripada pasaran modal Malaysia dan pasaran modal Islam. Walau bagaimanapun, tidak terdapat banyak kajian dalam bidang ini yang secara khusus mengetengahkan kesan nisbah hutang berfaedah dan nisbah hutang berasaskan Islam dengan menggunakan data hutang yang berasingan. Topik ini sangat penting berikutan metodologi saringan syariah yang disemak semula baru-baru ini dengan penggunaan tanda aras nisbah kewangan, yang mengakibatkan jumlah kerugian purata 130 syarikat patuh syariah pada 2013 dan tahun-tahun selepasnya. Hal ini menimbulkan kebimbangan tentang kesan tanda aras nisbah kewangan, iaitu had atas hutang berfaedah sebanyak 33% daripada jumlah aset syarikat ke atas prestasi syarikat patuh syariah. Oleh itu, sebahagian besar kajian ini tertumpu kepada kesan jumlah leveraj berasaskan Islam, terutamanya kesan nisbah hutang berfaedah dan nisbah hutang berasaskan Islam ke atas prestasi syarikat patuh syariah di Malaysia. Kajian ini juga meneliti tahap optimum jumlah leveraj berasaskan Islam yang membolehkan syarikat patuh syariah memaksimumkan prestasinya mengikut nisbah hutang konvensional maksimum yang dibenarkan, iaitu 33% daripada jumlah aset syarikat. Kajian ini menggunakan sampel 305 syarikat patuh syariah yang dilaporkan secara berterusan dalam setiap laporan setengah tahun Majlis Penasihat Syariah sepanjang tempoh kajian dari 2010 hingga 2017. Bagi kajian ini, syarikat sampel perlu memenuhi keperluan dua peringkat Suruhanjaya Sekuriti Malaysia (SCM) untuk mengekalkan status masing-masing sebagai syarikat patuh syariah. Kajian ini menggunakan analisis data panel dan regresi ambang bagi mencapai matlamatnya. Kajian ini mendapati bahawa jumlah leveraj berasaskan Islam memberi kesan negatif kepada prestasi syarikat patuh syariah di bawah kedua-dua ukuran prestasi, iaitu pulangan ekuiti dan pulangan aset, namun tidak signifikan. Nisbah hutang berfaedah memberi kesan negatif kepada prestasi syarikat patuh syariah di bawah kedua-dua ukuran prestasi, namun tidak signifikan. Kesan negatif ini menjadi petanda yang menggalakkan syarikat patuh syariah menggunakan perolehan tertahan, dan bukannya hutang, sebagai sumber dana disebabkan kos pembiayaan yang tinggi. Namun begitu, jumlah hutang berasaskan Islam telah memberikan keputusan yang bercampur-campur. Di bawah pulangan aset sebagai penunjuk prestasi, keputusan nisbah hutang berasaskan Islam adalah sama dengan dapatan nisbah hutang berfaedah, iaitu negatif dan tidak signifikan. Walau bagaimanapun, nisbah hutang berasaskan Islam mempunyai korelasi yang positif dengan pulangan aset sebagai penunjuk prestasi. Hal ini mungkin berlaku disebabkan oleh peratusan nisbah hutang berasaskan Islam yang lebih kecil atau di bawah nisbah ambang yang membolehkan sesebuah syarikat memaksimumkan nilainya seperti yang dibayangkan dalam laporan analisis deskriptif. Kemungkinan sebab yang lain ialah peluang pertumbuhan yang lemah seperti yang dicadangkan dalam kepustakaan yang berkaitan. Dapatan regresi ambang mencadangkan bahawa tiada nilai ambang yang signifikan dari segi statistik antara jumlah leveraj berasaskan Islam dengan prestasi syarikat patuh syariah. Dapatan ini selari dengan hasil perhubungan tak linear antara jumlah leveraj berasaskan Islam berganda dua dengan prestasi syarikat patuh syariah, iaitu negatif dan tidak signifikan. Hasil regresi yang tidak signifikan ini mendorong pihak berkuasa kawal selia kewangan Malaysia, iaitu Bank Negara Malaysia dan SCM, untuk menyemak semula tahap kecekapan pasaran modal Islam Malaysia yang, sebahagiannya, akan meningkatkan penyertaan nisbah leveraj berasaskan Islam dalam struktur hutang-ekuiti syarikat patuh syariah di Malaysia.

## ABSTRACT

The choice of debt-equity structure is very crucial in corporate financing policies. The capital markets are an important part of the today's financial system. *Shari'ah*-compliant companies represent major part of the capital market in Malaysia, representing an average of 35% and 56% of the Malaysian capital market and Islamic capital market respectively. However, the field lacks studies which specifically address the effect of interest-bearing debt ratios and Islamic debt ratios using separated debt data. It is a vital topic due to the recent revised *shari'ah* screening methodology with the adoption of financial ratio benchmarks, which led to an average total loss of 130 *shari'ah*-compliant firms in 2013 and later years, raising concerns about the effect of financial ratio benchmarks namely interest-bearing debt upper limit of 33% of firm's total assets on *shari'ah*-compliant firms' performance. Thus, this study mainly focuses on the impact of total Islamic leverage and particularly, the effect of interest-bearing debt and Islamic debt ratios on *shari'ah*-compliant firms' performance in Malaysia. The study also examines the optimal level of total Islamic leverage at which a *shari'ah*-compliant firm may maximise its performance given the maximum allowed conventional debt ratio being 33% of a firm's total assets. This study sampled 305 continuously reported *shari'ah*-compliant firms in every semi-annual report of the *Shari'ah* Advisory Council from 2010 to 2017 of study period. This research requires the sampled companies to meet the two-tier requirements of SCM to preserve their position as *shari'ah*-compliant companies. The study employed panel data analysis and threshold regression in order to attain its goals. The research found that the total Islamic leverage affected negatively on the performance of *shari'ah*-compliant companies under both performance measures, namely return on equity and return on assets, but it was not significant. The interest-bearing debt ratios negatively affect the performance of *shari'ah*-compliant firms' performance under both performance measures, but it is not significant. The negative effect acted as a sign that encouraged *shari'ah*-compliant companies to adopt retained earnings instead of debt as a source of funds because of high financing cost. However, the total Islamic debt has produced mixed results. Under return on assets as performance indicator, the results of Islamic debt ratios were similar to the findings of interest-bearing debt ratios, which were negative and insignificant. However, Islamic debt ratios were positively correlated with return on assets as performance indicator. This arose possibly because the percentage of Islamic debt ratio was smaller or below the threshold ratio at which a firm could maximise its value as the reported descriptive analysis implies. Another reason could be poor growth opportunities as related literature suggests. Threshold regression findings suggested that there was no threshold value, which was statistically significant between the total Islamic leverage and the performance of *Shari'ah*-compliant companies. This is in line with the result of nonlinear relationship between the squared total Islamic leverage and the performance of *shari'ah*-compliant companies, which resulted in a negative and insignificant. The insignificant results of regressions encourage the financial regulatory authorities in Malaysia, namely Bank Negara Malaysia and the SCM to review the efficiency level of the Malaysian Islamic capital market, which, in part, will enhance the participation of Islamic leverage ratios in the debt-equity structure of *shari'ah*-compliant companies in Malaysia.

## الملخص

يعد اختيار هيكل الديون - حقوق الملكية أمرًا بالغ الأهمية في سياسات تمويل الشركات. تعد أسواق رأس المال جزءًا مهمًا من النظام المالي الحالي. تمثل الشركات المتوافقة مع الشريعة الإسلامية جزءًا كبيرًا من سوق رأس المال في ماليزيا، حيث تمثل متوسط 35% و 56% من سوق رأس المال الماليزي وسوق رأس المال الإسلامي على التوالي. ومع ذلك، فإن هذا المجال يفتقر إلى الدراسات التي تتناول على وجه التحديد تأثير نسب الديون التي تحمل فائدة ونسب الدين الإسلامي باستخدام بيانات الديون المنفصلة. إنه موضوع حيوي بسبب منهجية الفحص الشرعي المعدلة مؤخرًا مع اعتماد معايير النسبة المالية، مما أدى إلى متوسط خسارة إجمالية قدرها 130 شركة متوافقة مع الشريعة في عام 2013 وما بعده، مما أثار مخاوف بشأن تأثير معايير النسبة المالية وهي الحد الأعلى للديون التي تحمل فائدة وهو 33% من إجمالي أصول الشركات على أداء الشركات المتوافقة مع الشريعة الإسلامية. وبالتالي، تركز هذه الدراسة بشكل أساسي على تأثير الرافعة المالية الإسلامية الكلية، وعلى وجه الخصوص، تأثير الديون التي تحمل فائدة ونسب الدين الإسلامي على أداء الشركات المتوافقة مع الشريعة الإسلامية في ماليزيا. تبحث الدراسة أيضًا المستوى الأمثل للرافعة المالية الإسلامية الكلية التي يمكن لشركة متوافقة مع الشريعة الإسلامية أن تزيد من أدائها نظرًا لأن الحد الأقصى المسموح به لنسبة الدين التقليدي هو 33% من إجمالي أصول الشركة. أخذت هذه الدراسة عينات من 305 شركة متوافقة مع الشريعة الإسلامية تم الإبلاغ عنها باستمرار في كل تقرير نصف سنوي للمجلس الاستشاري الشرعي من 2010 إلى 2017 وهي فترة الدراسة. يتطلب هذا البحث من الشركات التي تم أخذ عينات منها تلبية متطلبات مستويين من هيئة الأوراق المالية في ماليزيا للحفاظ على مكانتها كشركات متوافقة مع الشريعة الإسلامية. استخدمت الدراسة تحليل بيانات اللوحة وانحدار العتبة من أجل تحقيق أهدافها. ووجد البحث أن إجمالي النفوذ الإسلامي قد أثر سلبًا على أداء الشركات المتوافقة مع الشريعة الإسلامية في ظل كلا مقياسي الأداء، وهما العائد على حقوق الملكية والعائد على الأصول، لكنه لم يكن كبيرًا. تؤثر نسب الديون التي تحمل فائدة سلبًا على أداء الشركات المتوافقة مع الشريعة الإسلامية في ظل كلا مقياسي الأداء، ولكنها ليست مهمة. كان التأثير السلبي بمثابة علامة شجعت الشركات المتوافقة مع الشريعة الإسلامية على تبني الأرباح المحتجزة بدلاً من الدين كمصدر للتمويل بسبب ارتفاع تكلفة التمويل. ومع ذلك، فإن إجمالي الدين الإسلامي أنتج نتائج متباينة. في ظل العائد على الأصول كمؤشر للأداء، كانت نتائج نسب الدين الإسلامي مماثلة لنتائج نسب الديون التي تحمل فائدة، والتي كانت سلبية وغير مهمة. ومع ذلك، ارتبطت نسب الدين الإسلامي بشكل إيجابي مع العائد على الأصول كمؤشر للأداء. نشأ هذا على الأرجح لأن النسبة المئوية لنسبة الدين الإسلامي كانت أقل أو أقل من نسبة الحد الأدنى التي يمكن للشركة عندها تعظيم قيمتها كما يوحي التحليل الوصفي المبلغ عنه. قد يكون سبب آخر هو ضعف فرص النمو كما تقترح الأدبيات ذات الصلة. أشارت نتائج انحدار العتبة إلى عدم وجود قيمة حدية، والتي كانت ذات دلالة إحصائية بين إجمالي الرافعة المالية الإسلامية وأداء الشركات المتوافقة مع الشريعة الإسلامية. وهذا يتماشى مع نتيجة العلاقة غير الخطية بين الرافعة المالية الإسلامية التريعية وأداء الشركات المتوافقة مع الشريعة الإسلامية، والتي نتجت عن علاقة سلبية وغير مهمة. تشجع النتائج غير المهمة للانحدارات السلطات التنظيمية المالية في ماليزيا، وبالتحديد البنك المركزي الماليزي وهيئة الأوراق المالية في ماليزيا على مراجعة مستوى كفاءة سوق رأس المال الإسلامي الماليزي، والذي سيعزز جزئيًا مشاركة نسب الرافعة المالية الإسلامية في هيكل حقوق ملكية الديون. من الشركات المتوافقة مع الشريعة الإسلامية في ماليزيا.

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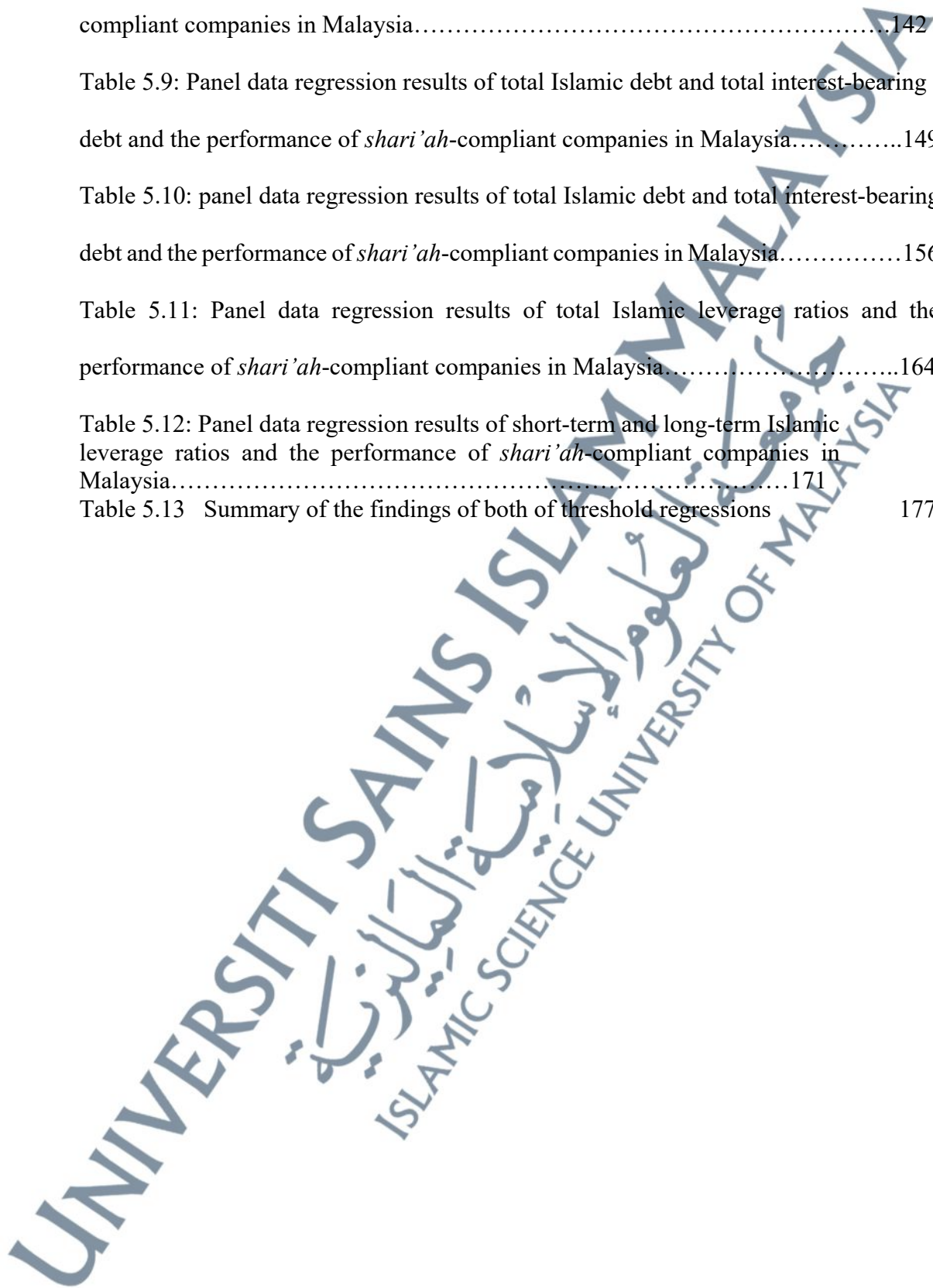
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## LIST OF ABBREVIATIONS

ICM	Islamic Capital Market
BM	Bursa Malaysia
MM	Main Market
SCM	Securities Commission Malaysia
SCD	<i>shari'ah</i> -compliant Debt
ID	Islamic Debt
STID	Short-term Islamic Debt
LTID	Long-term Islamic Debt
TID	Total Islamic Debt
STIBD	Short-Term Interest-Bearing Debt
LTIBD	Long-Term Interest-Bearing Debt
TIBD	Total Interest-Bearing Debt
TIL	Total Islamic Leverage
AP	Account Payable
CR	Current Ratio
AT	Asset Turnover
LnSIZE	Firm Size
GRWTH	Firm Growth
RoE	Return on Equity
RoA	Return on Assets
SAC	The <i>Shari'ah</i> Advisory Council
IT	Irrelevance Theory
TOT	Trade-off Theory
STOT	Static Trade-off Theory
POT	Pecking Order Theory
ACT	Agency Cost Theory
ST	Signalling Theory
MTT	Market Timing Theory
IF	Islamic Finance
IEM	Islamic Equity Market
IFS	Islamic Financial System
DVs	Dependent Variables
IVs	Independent Variables
CVs	Control Variables
OLS	Ordinary Least Squares
POLS	Pooled OLS
FE	Fixed Effects
RE	Random Effects
EVs	Explanatory Variables