The financing decision puzzle of technology-based firms: evidence from Malaysia

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Abstract: The financing decision among technology-based firms has become a significant issue around the globe, with the core concern to be that such firms may encounter financing limitations that could bar their growth ability. Using 92 technology-based firms observations from 2009–2012 and employing ordinary least square (OLS) regression, this study finds that there is a significant and positive relationship between board of directors' effectiveness and capital structure, and there is an inverse significant relationship between information asymmetry and capital structure. This indicates that technology-based firms having a robust board of directors minimise agency conflicts by mandating that managers, use more debts to be consistent with the interest of the shareholders. This is consistent with the agency theory where the obligation of interest payments that stem from the debt use assists in resolving the free cash flow issue. Further, the inverse relationship with information asymmetry shows that technology-based firms go through financing limitations owing to the asymmetric information that prevent their growth and development ability.

Keywords: technology-based firms; financing decision; information asymmetry; board of directors; Malaysia.

Reference to this paper should be made as follows: Al-Jaifi, H.A. and Al-Rassas, A.H. (xxxx) 'The financing decision puzzle of technology-based firms: evidence from Malaysia', *Int. J. Business and Globalisation*, Vol. X, No. Y, pp.xxx–xxx.

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