Jurnal Ilmiah Ekonomi dan Bisnis
Vol. 22. No.2, Maret 2025: 84-97
EISSN : 2442 – 9813
ISSN : 1829 – 9822

FACTORS AFFECTING CAPITAL STRUCTURE OF MANUFACTURING COMPANIES IN INDONESIA AND MALAYSIA

Nadzma Safira Putri Sugianto[1]*, Abdul Moin[2]

[1,2] Faculty of Bussiness and Economics, Universitas Islam Indonesia
Jl. Kaliurang KM. 14,5 Sleman, Yogyakarta, Indonesia
E-mail : 21311392@students.uii.ac.id *

accepted: 12/7/2025; revised: 15/7/2025; published: 29/9/2025

Abstract: Differences in macroeconomic conditions, monetary policy, and financial regulation between Indonesia and Malaysia shape different capital structure patterns in both countries. This study aims to analyze the effect of economic conditions and government policies on the capital structure of manufacturing companies in Indonesia and Malaysia. The sample is selected using purposive sampling technique from Osiris database and stock exchanges of both countries. The manufacturing sector is the focus due to its large contribution to the economy and efforts to optimize its funding. The results show that in Malaysia, factors such as growth, liquidity, profitability, size, and age of the firm affect capital structure, while in Indonesia only size and age are significant. The combined analysis with Fixed Effect found that only firm size is consistently influential, while other variables are not significant due to differences in economic context and financial system. These findings highlight the importance of considering local context in capital structure analysis.

Keywords: Capital Structure, Company, Growth, Liquidity, Profitability

INTRODUCTION

The business world is faced with rapid and increasingly complex changes in the era of growing globalization. Competition between companies not only occurs at the national level, but also at the regional and global levels. In order to survive and thrive in a highly competitive market, companies, including those in the Southeast Asia region, need to develop effective strategies that will help them survive and thrive (Hendra & Ningrum, 2023).

One aspect that greatly affects the performance and survival of the company is the decision related to capital structure. An optimal capital structure gives the company the ability to capitalize on growth opportunities. Meanwhile, an inappropriate capital structure can cause financial difficulties, such as difficulties in obtaining financing and managing financial risks (Sulaiman & Muhammad, 2022).

Indonesia and Malaysia are two developing countries in Southeast Asia with different economic characteristics, investment climate, and capital market policies, although they are similar in terms of manufacturing sector development (Goh *et al.*, 2018). The manufacturing sector in both countries plays an important role in contributing to Gross Domestic Product (GDP) and absorbing a large number of workers (World Bank, 2020). However, in their financial management, manufacturing companies in Indonesia and Malaysia are faced with different challenges in organizing their capital structure (Hadinugroho *et al.*, 2018; Rahman *et al.*, 2023).

The difference in capital structure between manufacturing companies in Indonesia and Malaysia shows that internal and external factors have a significant role in determining the company's financial policy (Hadinugroho *et al.*, 2018).

This cross-country study is important to understand how firm internal factors affect capital structure in different contexts (Deesomsak *et al.*, 2004). By comparing manufacturing firms in Indonesia and Malaysia, insights can be gained into the consistency or differences in the influence of financial variables on capital structure in the two countries (Booth *et al.*, 2001). This study can also contribute in enriching the empirical literature on capital structure in developing countries, which is still relatively limited compared to developed countries. Theoretically, there are several internal factors that are often studied in capital structure research, namely growth opportunity, liquidity, tangibility and profitability (Frank & Goyal, 2009; Brigham & Houston, 2014).

Manufacturing companies play an important role in the Indonesian and Malaysian economies, especially in their contribution to Gross Domestic Product (GDP) and employment. In the face of global competition, manufacturing companies need to have an optimal funding strategy in order to maintain growth and financial stability. One of the main aspects in managing corporate finance is the decision on capital structure, which is the combination of debt and equity used to finance the company's operations. The right capital structure can help companies achieve a balance between risk and profitability, while inappropriate decisions can have a negative impact on the financial stability and growth of the company (Halim *et al.*, 2024).

Study on factors affecting capital structure has been widely conducted, especially in the manufacturing sector. Profitability and liquidity have a negative influence on capital structure, while firm size has a positive effect (Halim *et al.*, 2024). Capital structure and profitability also have a significant effect on the value of manufacturing companies on the Indonesia Stock Exchange, while liquidity and growth have no significant effect (Goh *et al.*, 2018).

Previous studies have examined the relationship between these factors and capital structure, but the results still show inconsistencies. For example, some studies found that profitability has a negative effect on capital structure (Booth *et al.*, 2001), while others found a positive effect depending on the industry sector and region (Deesomsak *et al.*, 2004). This suggests that geographical context and local market characteristics may influence the effect of financial variables on capital structure.

The importance of internal factors such as profitability, tangibility, and liquidity in influencing the capital structure of manufacturing companies in Indonesia. In his research, it was found that profitability has a significant negative influence on capital structure, which supports the pecking order theory, while tangibility and liquidity show a positive influence, which explains that companies that have high tangible assets and strong liquid conditions tend to be better able to attract external financing. These results also highlight that capital structure decisions in Indonesia are not only determined by classical financial theory, but also by operational factors and corporate strategy (Hadinugroho *et al.*, 2018).

Based on this background, this study aims to empirically examine the influence of growth opportunity, liquidity, tangibility, and profitability on the capital structure of manufacturing companies listed in Osiris, Indonesia Stock Exchange (IDX) and Bursa Malaysia. This research is expected to contribute to the development of capital structure theory and provide useful information for company management, investors, and regulators in both countries in formulating appropriate financial policies.

Jurnal Ilmiah Ekonomi dan Bisnis
Vol. 22. No.1, Maret 2025: 84-97
EISSN : 2442 – 9813
ISSN : 1829 – 9822

LITERATURE REVIEW

Peecking Order Theory in Capital Structure

Peecking Order Theory explains that companies have a hierarchy in the selection of funding sources, where companies are more likely to use internal funding before switching to external funding. If internal funds are insufficient, companies will prefer funding through debt compared to equity issuance. This preference is based on the problem of information asymmetry, which is a condition in which management has more information about the company's financial condition than external investors. As a result, equity issuance can be perceived as a negative signal to the market, which can reduce investor confidence in the company (Myers & Majluf, 1984).

In the context of a comparison between Indonesia and Malaysia, the application of the Peecking Order theory may vary depending on factors such as financial regulation, access to capital markets, and the level of investor confidence in the firm. Companies in Indonesia, operating in a fledgling capital market with a high degree of volatility, tend to rely more on debt as their main source of funding as opposed to issuing new shares (Sartono, 2016).

Meanwhile, companies in Malaysia, which have more stable financial regulations and better access to capital markets, may have greater flexibility in choosing funding sources. Therefore, this study aims to analyze the extent to which the Peecking Order theory applies in the capital structure of manufacturing firms in both countries, as well as identify the factors that influence firms' funding preferences (Ab-Rahim & Chiang, 2016).

Capital Structure

Capital structure is the composition or ratio between debt and equity used by the company to finance its assets and operations. According to Sjahrial (2014) and Hasri (2021), capital structure is the balance of the use of loan capital, which includes permanent short-term debt and long-term debt, with own capital consisting of preferred shares and common shares. Gunadhi & Putra (2019) added that capital structure is a combination of internal funding sources, such as equity capital, and external funding sources, such as creditors and stakeholders.

Dewi & Wirama (2017) also explain that capital structure refers to the proportion of a company's funding sources consisting of debt and equity, with the aim of optimizing company value through the right combination of capital structure. Based on these various definitions, it can be concluded that capital structure has an important role in determining the company's financial policy in order to achieve stability and optimal business growth.

Capital structure can be categorized based on the proportion between debt and equity used in financing the company. First, a conservative capital structure, where the company uses more equity compared to debt. This approach reduces the risk of bankruptcy but may limit the potential for higher returns (Hadinugroho *et al.*, 2018).

Second, aggressive capital structure, which indicates that the company uses more debt compared to equity. This strategy can increase the return on equity but also increases financial risk and potential liquidity difficulties (Hadinugroho *et al.*, 2018).

Third, a balanced capital structure, where the company maintains a balance

between debt and equity in financing its assets. This model aims to maximize the value of the company by optimizing the cost of capital and the risks faced (Hadinugroho *et al.*, 2018).

Companies operating in a high volatility business environment tend to be more cautious in using debt, while companies with easy access to external funding can be more flexible in determining their capital structure policies. Therefore, effective capital structure management is key for companies in achieving long-term financial goals, minimizing the cost of capital, and maximizing company value in the midst of increasingly competitive industry competition (Brigham & Houston, 2011).

Capital Structure of Companies in Indonesia and Malaysia

Capital structure is the composition or ratio between debt and equity used by the company to finance its assets and operations. According to Sjahrial (2014) and Hasri (2021), capital structure is the balance of the use of loan capital, which includes permanent short-term debt and long-term debt, with own capital consisting of preferred shares and common shares.

One important factor in capital structure is the liquidity of the firm. Companies with good liquidity tend to use more equity than debt because they have sufficient internal funds to finance operations and investments without having to rely on external loans. In addition, company size also plays an important role in determining capital structure. Larger companies usually have easier access to capital markets and financial institutions, so they can obtain financing at lower costs and use a higher proportion of debt without significantly increasing financial risk (Awalsidik, 2023).

The capital structure of firms in Malaysia is influenced by various financial characteristics and macroeconomic factors that are different compared to other Southeast Asian countries. In an empirical study conducted by Deesomsak *et al.* (2004) on manufacturing firms in several Asia Pacific countries including Malaysia, it was found that variables such as profitability, growth opportunities, firm size, asset tangibility, and liquidity have a significant influence on the composition of the firm's capital structure.

In addition, they also found differences in capital structure across countries that cannot be fully explained by these financial factors, suggesting that macroeconomic conditions as well as Malaysia-specific financial policies also influence decisions regarding a firm's capital structure.

RESEARCH METHODS

Population and Sample

This study focuses on manufacturing companies listed in the Osiris database, Indonesia Stock Exchange (IDX) and Bursa Malaysia (BM) during the period 2019 - 2023 as the research population. The manufacturing sector was chosen due to its significant role in the economies of both countries as well as its tendency to optimize the capital structure. The sample in this study was determined using purposive sampling method, which is a sampling technique based on certain criteria. The criteria used in the sample selection include:

1. Originates from the manufacturing sector and excludes the financial sector
2. Manufacturing companies located in Indonesia and Malaysia
3. Consumer staples manufacturing companies listed on the Osiris database, Indonesia Stock Exchange (IDX) and Bursa Malaysia (BM) during the period 2019 - 2023

Jurnal Ilmiah Ekonomi dan Bisnis
Vol. 22. No.1, Maret 2025: 84-97
EISSN : 2442 – 9813
ISSN : 1829 – 9822

4. Have relevant financial ratio data during the period 2019 - 2023

Variable of Study

This study consists of three main types of variables, including:

1. The dependent variable (Y) in this research is capital structure.
2. Independent variable (X) in this research is profitability, growth opportunity, liquidity, and tangibility.
3. Control variables used in this research are company age and company size.

The dependent variable (Y) in this study is capital structure, which refers to the ratio between the use of debt and equity in corporate funding. Capital structure is generally measured by Debt to Asset Ratio (DAR), which respectively describes the proportion of debt to equity and total assets of the company.

Debt to Asset Ratio (DAR) is calculated using the following formula (Ross *et al.*, 2022):

$$DAR = \frac{Total\ Debt}{Total\ Assets}$$

Free or Independent Variables (X)

The independent variables used in this study include:

1. Profitability or Return of Assets (ROA)

In this study, profitability is measured using Return on Assets (ROA), which is a ratio that shows the company's level of efficiency in generating profits from its total assets.

ROA is obtained by dividing Earnings After Tax (EAT) by total assets, which reflects the extent to which the company is able to convert its assets into profits. According to Ross *et al.* (2010), the formula used to calculate ROA is as follows:

$$ROA = \frac{EAT}{Total\ Assets}$$

Growth Opportunity (GO)

One commonly used indicator to measure growth opportunities is the Market to Book Value (M/B Value) ratio, which compares the market value of equity to the book value of a company's equity. According to Bringham & Houston (2011), the formula for measuring growth opportunity based on M/B Value is as follows:

$$GO = \frac{Market\ Value\ of\ Equity}{Book\ Value\ of\ Equity}$$

Liquidity

In this study, liquidity is measured by Current Ratio (CR), which is a ratio that shows the ability of the company's current assets to cover its short-term liabilities. According to Kieso *et al.* (2013), the formula used is as follows:

$$CR = \frac{Total\ Aset\ Lancar}{Total\ Liabilitas\ Lancar}$$

Tangibility

Tangibility or tangible assets play a role in determining the capital structure of the company, where companies with a high proportion of tangible assets are easier to obtain external financing because these assets can be used as collateral (Titman & Wessels, 2022). Tangibility is measured using the ratio of total fixed assets to total company assets, with the formula:

$$Tangibility = \frac{Fixed\ Assets}{Assets}$$

Vol. 22. No. 1, Maret 2025: 84-97
EISSN : 2442 – 9813
ISSN : 1829 – 9822

Company Size

Company size illustrates asset capacity and competitiveness in obtaining funding (Myers, 2021). Company size is measured using the natural logarithm of total assets, with the following formula:

$$\boldsymbol{UkP = Ln(Total\ Aset)}$$

Company Age

The age of the company is calculated based on the difference between the year of research and the year of establishment of the company, with the following formula:

$$\boldsymbol{UsP = Ln(\sum tahun\ dimulainya\ usaha)}$$

Descriptive Statistics

Descriptive statistics serve to provide a summary or overview of the data used in the study. This technique includes calculating the mean, standard deviation, minimum, and maximum values of each research variable. By using descriptive statistics, researchers can understand data distribution patterns and basic characteristics before conducting more complex analysis (Gujarati & Porter, 2009).

In addition, descriptive statistical analysis also helps in identifying possible anomalies or outliers in the data that may affect the research results. The information obtained from this analysis becomes the basis for determining the next step in data processing, such as testing classical assumptions or selecting the appropriate analysis method. Thus, descriptive statistics are an important early stage in quantitative research to ensure the validity and reliability of the data used.

Regression Analysis

1. *Pooled Model*

The pooled model sees no differences in characteristics between individuals or time, all data is combined and analyzed using the Ordinary Least Square (OLS) method. However, this model does not consider heterogeneity, so a model fit test is required before use (Ghozali, 2021).

2. *Fixed Effect Model* (*FEM*)

FEM model accommodates differences between units through fixed effects. To determine whether the FEM model is more appropriate than the pooled model, the Chow test to compare between pooled least square (pooled model) and fixed effect model. If the resulting probability value (p-value) is smaller than the 5% significance level ($p < 0.05$), then the fixed effect model is more appropriate to use than the pooled model (Ghozali, 2021).

3. *Random Effect Model* (*REM*)

REM assumes that differences between entities are random and uncorrelated with the independent variables. This model is more efficient if these assumptions are met. The choice between REM and FEM is done using the Hausman test. If the Chow test results show that the fixed effect model is more appropriate, then the Hausman test is conducted to compare the fixed effect model with the random effect model. The fixed effect model is selected if the p value <0.05, which indicates a correlation between the individual effects and the independent variables in the model (Baltagi, 2021).

Jurnal Ilmiah Ekonomi dan Bisnis
Vol. 22. No.1, Maret 2025: 84-97
EISSN : 2442 – 9813
ISSN : 1829 – 9822

RESULTS AND DISCUSSION

On the Debt to Asset Ratio (DAR) variable, Indonesian companies have an average value of 0.8948, higher than Malaysia which has an average value of 0.3524. This indicates that companies in Indonesia tend to use a larger proportion of debt to fund their assets, with a higher level of variation as reflected by the standard deviation of 2.6682 compared to 0.2147 in Malaysia. This finding is in line with research by Rahman *et al.* (2023), which states that the capital structure of companies in developing countries such as Indonesia tends to be more leverage-intensive than neighboring countries.

Meanwhile, on the profitability variable (ROA), Malaysian companies show better performance with an average of 0.0990, higher than companies in Indonesia which recorded a value of 0.0214. This indicates that operational efficiency and the ability to generate profits against assets are superior in Malaysia. Malaysian companies have a better ability to meet short-term obligations. This finding supports the study by Zainudin *et al.* (2021), which states that liquidity and profitability affect capital structure decisions differently in each country.

For the tangibility variable, Indonesian companies have an average of 0.9772, indicating that the majority of company assets consist of fixed assets. In contrast, Malaysian companies have a lower tangibility value of 0.5948, which indicates a more flexible asset structure.

Table 1. Descriptive Statistical Analysis Test of Capital Structure of Companies in Malaysia and Indonesia

	Malaysia				
	Min.	**Max**	**Mean**	**Median**	**St.Dev.**
Debt to Asset Ratio	0.014	0.928	0.352	0.320	0.209
Growth opportunity	0.001	24.62	0.612	0.144	2.06
Liquidity	0.345	50.50	4.421	2.079	7.237
Tangibility	0.025	0.936	0.594	0.611	0.189
Profit	-0.089	0.562	0.099	0.076	0.092
Size	9.028	15.79	12.31	12.14	1.413
Age	0.693	6.918	3.275	3.295	0.840
	Indonesia				
Min.	**Max**		**Mean**	**Median**	**St.Dev.**
0.093	40.73		0.894	0.535	2.660
0.001	203.1		1.359	0.192	11.51
0.026	9.954		2.061	1.536	1.710
0.027	29.64		0.978	0.584	2.154
0.0003	0.2510		0.0214	0.0157	0.0214
7.022	16.31		12.35	12.38	1.640
0.693	4.701		3.350	3.401	0.675

Source: Processed Primary Data, 2025

The firm size and age variables show relatively similar results between the two countries. The average firm size in Indonesia is 12.3539, slightly higher than Malaysia's 12.3186. The age of the company is also not much different, with Indonesia averaging 3.3376 and Malaysia 3.2785. These results indicate that the scale and age of firms in both countries are at comparable levels.

Classical Assumption Analysis

Multicollinearity Test Results

The results of the Pearson Correlation analysis of the combined data of companies in Malaysia and Indonesia, obtained all correlation coefficient values between independent variables are below the threshold of 0.80. This indicates that there is no strong linear correlation between the independent variables, so there are no symptoms of multicollinearity in the regression model.

According to Gujarati and Porter (2009), a correlation value below 0.80 indicates that multicollinearity is not a

problem in a regression model. Ghozali (2021) also emphasized that low correlation between predictors allows for valid and efficient model estimation. This result is reinforced by the research of Zainudin *et al.* (2021) and Rahman *et al.* (2023), which state that in cross-country studies such as Indonesia and Malaysia, differences in financial systems and company characteristics lead to weak correlations between financial variables, so they do not interfere with the results of regression analysis.

Heteroscedasticity Test Results Malaysia and Indonesia

Heteroscedasticity testing using the Glejser test on the combined data of companies in Malaysia and Indonesia shows that all independent variables have a probability value greater than 0.05. This indicates the absence of heteroscedasticity symptoms in the regression model, so the assumption of homoscedasticity is fulfilled and the residual variance is considered constant. Rahman *et al.* (2023) also concluded that the fulfillment of classical assumptions such as this increases the validity of the analysis in cross-country financial studies.

Panel Data Regression Model Estimation of Malaysia and Indonesia

a. Pooled Model

Profitability variable (ROA) has no significant effect on capital structure of manufacturing companies in Malaysia ($p > 0.05$). More profitable companies tend to use internal profit for financing, so that dependence on debt will decrease. (Myers & Majluf, 1984). However, the results of this study do not support the theory.

Table 2. Malaysia and Indonesia Pooled Data Test Results

	Malaysia			Indonesia		
	Coefisient (std.error)	**t-statistic**	**Prob.**	**Coefisient (std.error)**	**t-statistic**	**Prob.**
Growth Opportunnity	0.015320 (0.004327)	3.540779	0.0005	-0.001882 (0.012932)	-0.145515	0.8844
Liquidity	-0.233332 (0.052500)	-4.444040	0.0000	-0.037782 (0.146345)	-0.258168	0.7964
Tangibility	-0.013972 (0.001238)	-11.28373	0.0000	0.048464 (0.072551)	0.667999	0.5046
Profit	0.067699 (0.105210)	0.643464	0.5204	1.109839 (11.60592)	0.095627	0.9239
Size	0.045054 (0.006872)	6.556310	0.0000	-0.320489 (0.100268)	-3.196332	0.0015
Age	-0.027432 (0.011240)	-2.440505	0.0152	0.546330 (0.234221)	2.332539	0.0203
Unbalanced panels	350	350	350	315	315	315
R^2	0.412588			0.045470		
F-statistic	40.15293			2.445342		
Prob.(F-statistic)	0.000000			0.025225		

Source: Processed Primary Data, 2025

The effect of profitability on capital structure is contextual and can differ between countries, depending on their respective market conditions and financial policies (Zainudin *et al.*, 2021; Rahman *et al.*, 2023). The regression results with the Pooled Least Squares (PLS) approach, the variables of growth opportunity, liquidity, tangibility, and profitability (ROA) have no significant effect on the capital structure of manufacturing companies in Indonesia, indicated by a significance value that exceeds 0.05. There is an indication that

Jurnal Ilmiah Ekonomi dan Bisnis
Vol. 22. No.1, Maret 2025: 84-97
EISSN : 2442 – 9813
ISSN : 1829 – 9822

companies rely more on internal financing and other strategies outside financial indicators in determining the capital structure. Japar & Susanti (2020) and Falencia & Dewi (2020) also found that these financial variables are not significant in influencing the capital structure in the Indonesian manufacturing sector.

The effect of profitability on capital structure is contextual and can differ between countries, depending on their respective market conditions and financial policies (Zainudin *et al.*, 2021; Rahman *et al.*, 2023). The regression results with the Pooled Least Squares (PLS) approach, the variables of growth opportunity, liquidity, tangibility, and profitability (ROA) have no significant effect on the capital structure of manufacturing companies in Indonesia, indicated by a significance value that exceeds 0.05. There is an indication that companies rely more on internal financing and other strategies outside financial indicators in determining the capital structure.

Japar & Susanti (2020) and Falencia & Dewi (2020) also found that these financial variables are not significant in influencing the capital structure in the Indonesian manufacturing sector.

Table 3. Fixed Effect Model Test Results for Malaysia and Indonesia Data

	Malaysia			Indonesia		
	Coefisient (std.error)	t-statistic	Prob.	Coefisient (std.error)	t-statistic	Prob.
Growth Opportunnity	0.009161 (0.001874)	4.887120	0.0000	0.015974 (0.018260)	0.874832	0.3826
Liquidity	-0.014889 (0.055947)	-0.266124	0.7904	-0.242388 (0.278557)	-0.870154	0.3852
Tangibility	-0.013972 (0.001238)	-6.615551	0.0000	-0.129805 (0.119396)	-1.087174	0.2781
Profit	-0.221121 (0.054636)	-4.047154	0.0001	0.445514 (12.27431)	0.036296	0.9711
Size	0.117114 (0.020500)	5.712919	0.0000	-1.371225 (0.452842)	-3.028042	0.0028
Age	-0.124830 (0.024895)	-5.014156	0.0000	-0.369949 (1.914199)	-0.193266	0.8469
Unbalanced panels	350	350	350	315	315	315
R^2	0.967587			0.391786		
F-statistic	76.45808			1.554382		
Prob.(F-statistic)	0.000000			0.004599		

Source: Processed Primary Data, 2025

b. *Fixed Effect Model*

The regression result using Fixed Effect Model (FEM) approach shows that tangibility variable does not significantly affect the capital structure of manufacturing companies in Malaysia. This can be seen from the probability value of 0.7904, which is far above the significance level of 5%.

Tangibility reflects the portion of fixed assets to the total assets of the company. In capital structure theory, fixed assets are considered as collateral to obtain debt.

(Myers, 1984). However, the results of this study show that tangible assets are not the main consideration in the use of debt by the company. This may be due to the company's financial policy that prioritizes internal financing or the non-reliance on fixed assets as collateral. The effect of tangibility on capital structure is not always consistent and depends on industry characteristics and country context (Rahman *et al.*, 2023).

The estimation result using Fixed Effect Model (FEM) shows that the variables of growth opportunity, liquidity, tangibility, profitability (ROA), and company age have no significant influence on the capital structure of manufacturing companies in Indonesia, with probability value above 0.05 (Table 4). This indicates that companies do not directly consider these factors in determining their debt composition.

Growth opportunity has no significant effect on capital structure, while asset structure, firm size, and profitability have a significant negative effect on debt-to-asset ratio (Pamungkas, 2023).

The dynamics of capital structure are also influenced by the company's life cycle, where liquidity and profitability play a greater role in the growth stage, while growth opportunity and fixed asset ownership are more dominant in the company's maturity stage. (Sari *et al.*, 2020).

Table 4. Random Effect Model Test Results with Debt to Asset Dependent Variable

	Malaysia			Indonesia		
	Coefisient (std.error)	**t-statistic**	**Prob.**	**Coefisient (std.error)**	**t-statistic**	**Prob.**
Growth Opportunity	0.008069 (0.001781)	4.531851	0.4511	-0.000848 (0.012913)	-0.065684	0.9477
Liquidity	-0.013302 (0.001408)	-9.444455	0.0000	-0.044100 (0.151169)	-0.291725	0.7707
Tangibility	-0.224201 (0.052320)	-4.285228	0.0000	0.050505 (0.072100)	0.700489	0.4842
Profit	-0.060084 (0.047552)	-1.263539	0.2073	0.601045 (11.36318)	0.052894	0.9579
Size	0.058070 (0.010662)	5.446433	0.0000	-0.349900 (0.113789)	-3.074985	0.0023
Age	-0.045730 (0.014803)	-3.089245	0.0022	0.582715 (0.264578)	2.202431	0.0284
Unbalanced panels	350	350	350	315	315	315
R^2	0.325022			0.043777		
F-statistic	27.52744			2.350074		
Prob.(F-statistic)	0.000000			0.031050		

Source: Processed Primary Data, 2025

c. Random Effect Model (REM)

Two independent variables, namely growth opportunity and tangibility, do not have a significant influence on the capital structure of manufacturing companies in Malaysia during the 2019-2023 period. This can be seen from the probability value of growth opportunity of 0.4511 and tangibility of 0.2073

The growth opportunity variable, which reflects the company's future expansion potential, is generally expected to influence external financing decisions. However, the findings in this study show that manufacturing companies in Malaysia tend not to make growth prospects a major factor in determining the composition of funding, and prefer internal financing sources.

Similarly, the tangibility variable, which measures the portion of fixed assets to total assets, also shows no significant effect

Jurnal Ilmiah Ekonomi dan Bisnis
Vol. 22. No.1, Maret 2025: 84-97
EISSN : 2442 – 9813
ISSN : 1829 – 9822

in this model. Although in theory, especially in trade-off theory (Myers, 1984), this is not the case in the context of Malaysian firms.

The effect of growth opportunity and tangibility on capital structure is contextual. Both studies also confirm that corporate financing decisions in developing countries such as Malaysia are more influenced by internal factors, such as the level of profitability and company size, rather than asset indicators or growth potential alone (Zainudin *et al.*, 2021; Rahman *et al.*, 2023).

Firm size has a significant negative effect (p = 0.0023), while firm age has a significant positive effect (p = 0.0284) on capital structure.

The coefficient of determination (R^2) of 0.0438 indicates that the variables in the model are only able to explain about 4.38% of the variation in capital structure, while the rest is influenced by other factors not included in the model. (Ghozali, 2021). The effect of financial variables on capital structure is highly dependent on the industrial context and economic conditions in each country (Rahman *et al.*, 2023).

Based on the table, the Chow test results show a probability value that is smaller than the 5% significance limit (α = 0.05). This means that the Fixed Effect model is more appropriate because differences in characteristics between companies need to be taken into account. Furthermore, the Hausman test also produces a p-value of 0.0000, which means that the Random Effect model cannot be used because it does not meet the consistency assumption. Therefore, the Fixed Effect model was chosen as the most appropriate model in this study because it can capture differences between companies in more detail, both in Indonesia and Malaysia.

Since both tests (Chow and Hausman) support FEM, the Lagrange Multiplier (LM) test is not necessary. FEM is very relevant for analyzing capital structure in developing countries because it can control the fixed effects of institutional and regulatory characteristics that differ across countries (Saad & Almasarwah, 2024).

Based on the results of testing the panel data regression model, the Chow test shows a probability value of 0.0001 (<0.05), so the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model. However, the Hausman test produces a probability value of 0.1969 (> 0.05), which indicates that the Random Effect Model (REM) is more appropriate because individual effects are not correlated with independent variables. (Gujarati & Porter, 2009; Widarjono, 2007). Falencia & Dewi (2020) stated that REM is often more stable for capital structure analysis in manufacturing companies in Indonesia.

After the Chow test and Hausman test gave different results, the Lagrange Multiplier (LM) test was conducted to determine the most appropriate model. LM test compares between Random Effect Model (REM) and Pooled - Ordinary Least Squares (Pooled-OLS), with the assumption that if the probability value of LM test is less than 0.05, then REM is more appropriate to use. Conversely, if the probability value exceeds 0.05, Pooled-OLS is a more suitable choice (Widarjono, 2007).

The Lagrange Multiplier (LM) test shows p = 0.0001 (p < 0.05) for time effects and combined effects (cross-section and time), it can be concluded that the Random Effect Model (REM) is more appropriate to use than Pooled Least Squares (PLS) because it is able to capture variations that

occur due to time differences in panel data so as to provide more efficient estimates. Conversely, the insignificant probability value for individual effects (cross-section) indicates that differences between entities have less influence than differences between time. (Rahman *et al.*, 2023; Zainudin *et al.*, 2021).

CONCLUSION AND SUGGESTIONS

This study found significant differences in the capital structure of manufacturing companies in Indonesia and Malaysia. Companies in Indonesia tend to have a higher debt ratio compared to companies in Malaysia, which are more conservative in their use of debt.

Firm internal factors such as growth opportunity, liquidity, tangibility, and profitability have varying influence on capital structure in each country. In Malaysia, the variables of growth opportunity, profitability, firm size, and firm age have significant effect. On the contrary, in Indonesia, only firm size and age show significance on capital structure.

This study has several limitations that need to be considered for the development of further studies, namely: this study only uses internal variables of the company (growth opportunity, liquidity, tangibility and profitability), without considering external variables such as interest rates, inflation, and exchange rates, which can also affect capital structure decisions.

Furthermore, the research sample is limited to the manufacturing sector listed in Osiris, IDX, and Bursa Malaysia, so the results cannot be generalized to all industrial sectors in both countries. Finally, this study uses a quantitative approach with secondary data, so it does not explore qualitative factors such as management policy, ownership structure, or institutional factors that can also affect capital structure.

This study offers a novel cross-country comparative analysis of capital structure determinants in manufacturing firms from Indonesia and Malaysia—two economically similar yet institutionally distinct Southeast Asian emerging markets—revealing that only firm size consistently influences leverage across both countries, while other canonical variables (growth opportunity, liquidity, tangibility, profitability) exhibit divergent or insignificant effects. This contextual inconsistency underscores the limited generalizability of universal capital structure theories like the Pecking Order or Trade-Off models in developing economies and highlights the critical role of local macroeconomic conditions, financial market maturity, and regulatory environments in shaping corporate financing behavior. The findings carry significant implications: they urge managers to tailor financing strategies to national contexts, prompt investors and creditors to incorporate country-specific risk assessments, and encourage policymakers especially in Indonesia to strengthen capital market infrastructure to broaden financing access beyond large, established firms. Methodologically, the study reinforces the necessity of panel data techniques that account for cross-country heterogeneity, thereby enriching empirical literature on capital structure in underrepresented emerging markets.

REFERENCES

Awalsidik, N. (2023). Analisis Faktor-Faktor Yang Mempengaruhi Struktur Modal Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Periode 2012-2016. *Jurnal Metansi*, 6(2).

Deesomsak, R., Paudyal, K., & Pescetto, G. (2004). The Determinants of Capital

Structure: Evidence from the Asia Pacific Region. *Journal of Multinational Financial Management*, 14(4-5), 387-405.

Fahmi, I. (2016). Manajemen Keuangan: Teori dan Aplikasi. Bandung: Alfabeta.

Falencia, F., & Dewi, S. P. (2020). Pengaruh profitabilitas, pertumbuhan aset, ukuran perusahaan, struktur aktiva, dan likuiditas terhadap struktur modal pada perusahaan manufaktur di Bursa Efek Indonesia. *Jurnal Multiparadigma Akuntansi Tarumanagara*, 2(3), 1334-1342.

Ghozali, I. (2021). *Aplikasi Analisis Multivariate dengan Program IBM SPSS 23* (Edisi 8). Semarang: Badan Penerbit Universitas Diponegoro.

Goh, C. F., Tai, W. Y., Rasli, A., Tan, O. K., & Norhayati. (2018). Determinan Struktur Modal Perusahaan Manufaktur di Bursa Efek Malaysia. *Jurnal Akuntansi Multiparadigma*, 9(3), 1-20.

Gujarati, D. N., & Porter, D. C. (2009). Basic Econometrics (5th ed.). New York: McGraw-Hill.

Gumilar, I. (2018). Pengaruh Globalisasi terhadap Daya Saing Industri di Indonesia. *Jurnal Sosial Humaniora Sigli* (JSH), 7(1), 529-536.

Hadinugroho, B., Agustanto, H., & Harmadi. (2018). Determinan Struktur Modal Perusahaan di Negara-Negara Asia Tenggara. *Jurnal Siasat Bisnis*, 22(2), 144–163.

Halim, A., Wijaya, H., & Prasetyo, D. (2024). The Effect of Profitability, Liquidity, and Firm Size on Capital Structure in the Manufacturing Sector. *Journal of Finance and Accounting*, 10(2), 45-58.

Japar, M. G., & Susanti, M. (2020). Faktor-faktor yang mempengaruhi struktur modal pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia. *Jurnal Multiparadigma Akuntansi Tarumanagara*, 2(2), 852-862.

Memon, P. A., Shah, M. S., Ghumro, N. H., & Rus, R. M. (2019). Capital Structure and Adjustment Speed: Evidence From Listed Manufacturing Firms in Malaysia and Indonesia. *Indonesian Capital Market Review*, 11(2), 7-30.

Myers, S. C., & 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.

Nawir, J., Hadi, A. R. A., & Dewi, F. D. (2023). Capital Structure and Company's Sustainability: Case Study of Public Listed Oil and Gas Companies in Indonesia and Malaysia. *Jurnal Akuntansi dan Keuangan*, 25(1), 45-60.

Ng, A. H., & Tan, S. K. (2023). Capital Structure and Firm Performance in ASEAN: Evidence from Indonesia and Malaysia. *Journal of Southeast Asian Economics*, 41(2), 225-245.

Pamungkas, D. S. (2023). The Effect Of Asset Structure, Size, Growth And Profitability Of The Company On The Capital Structure Of Manufacturing Companies. *CoValue Journal*, 14(6).

Pham, T. L., & Nguyen, P. T. (2021). Capital Structure and Firm Performance: Evidence from ASEAN Countries. *Journal of Asian Business and Economic Studies*, 28(3), 52-71.

Pluang. (2024). Rasio Utang Terhadap Ekuitas. Diakses dari https://pluang.com/blog/glossary/rasio-utang-terhadap-ekuitas

Pratama, A., & Sari, M. (2021). Validasi Model Panel Data dengan Uji Chow, Hausman, dan LM. *Jurnal Ekonometrika Indonesia*, 12(2), 45-60.

Rahman, F., & Sulaiman, M. (2023). Financial Factors Affecting Capital Structure in ASEAN Manufacturing Firms. *Journal of Asian Finance, Economics and Business*, 10(2), 123-134.

Rahmawati, A. (2023). Analisis Pengaruh Profitabilitas, Likuiditas, dan Ukuran Perusahaan terhadap Struktur Modal pada Perusahaan Manufaktur yang Terdaftar di BEI. *Skripsi*. Universitas Indonesia.

Saad, R. M., & Almasarwah, A. (2024). Institutional quality and capital structure: Evidence from ASEAN manufacturing firms. *International Journal of Business and Society*, 25(1), 77–94.

Sahabuddin, Z. A., & Setiawan, S. A. C. (2012). Balance Sheet Effect Sebagai Penentu Determinan Struktur Modal Enam Bursa Efek Pada Negara-Negara ASEAN. *Media Riset Akuntansi, Auditing & Informasi*, 12(3), 106-125.

Sari, M. M., Sulastri, M., & Prasetyo, A. (2020). Dynamics of Firm's Capital Structure Along The Life Cycle of Indonesian Manufacturing Firms. *Indonesian Journal of Business and Entrepreneurship*, 5(1), 21.

Silviani, R. (2024). Capital Structure, Profitability, Liquidity, and Growth: Their Impact on Firm Value in Manufacturing Companies. *Indonesian Journal of Business and Economics*, 12(1), 75-89.

Sulaiman, A., & Muhammad, A. (2022). Financial Risk Management and Capital Structure Decisions in ASEAN Financial Sectors. *Journal of Financial Markets and Risk Management*, 12(1), 34-49.

Widarjono, A. (2007). Ekonometrika: Teori dan Aplikasi untuk Ekonomi dan Bisnis. Yogyakarta: UPP STIM YKPN.

Wijaya, H. (2021). The Effect of Firm Size, Liquidity, and Growth Opportunity on Capital Structure in Manufacturing Companies in Malaysia. *Asian Journal of Business and Finance*, 9(2), 88-102.

Zainudin, N., *et al.* (2021). The Role of Firm Size and Age in Capital Structure Decisions: Evidence from Developing Countries. *International Journal of Finance & Economics*, 28(1), 45-59.