World Academy of Science, Engineering and Technology
International Journal of Mathematical and Computational Sciences
Vol:14, No:12, 2020

Comparative Analysis of Effect of Capital Structure to Profitability in Manufacturing Sector in Indonesia and Malaysia in 2009 - 2014

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Abstract : The effect of capital structure on profitability is often debated by many financial investigators. The application of the trade-off theory and pecking order theory to analyze this relationship may generate different views. Each company has its own strategies to achieve its objectives and the external environment, such as state policy has a broad impact on the relationship with the capital structure of the company's profitability. Malaysia is the country closest to Indonesia that had a similar growth rate of GDP and industrial production with Indonesia, but Malaysia has lower inflation rate than Indonesia. This study was conducted to compare the performance of manufacturing sector between two countries when entering the era of the ASEAN Economic Community (AEC). The samples for this study were 69 companies in Indonesia and 242 companies in Malaysia that engaged in manufacturing sector. The study uses panel data analysis. The study found that the capital structure have positive effect on profitability of manufacturing company in Indonesia, and it turns to negative effect on manufacturing companies in Malaysia. The results also showed that there are significant differences in short-term debt towards profitability of manufacturing companies in the two countries Indonesia and Malaysia.

Keywords : capital structure, Indonesia, Malaysia, manufacturing, profitability
Conference Title : ICSRD 2020 : International Conference on Scientific Research and Development
Conference Location : Chicago, United States
Conference Dates : December 12-13, 2020