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# ANALYSIS OF THE ROLE OF CAPITAL STRUCTURE ON THE RELATIONSHIP BETWEEN THE ECONOMIC PARAMETERS THAT DETERMINE THE VALUE OF MANUFACTURING COMPANIES IN INDONESIA AND THAILAND

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**Keyword: Capital Structure, Economic Parameters, Firm Value.**

## ABSTRACT:

The purpose of this study is to examine the influence of external factors that are proxied on: Inflation, Interest Rates, GDP, then internal factors that are proxied in: ROA, Size, Asset Structure, NDTS, INOS, INOP, then Innovative Capital partially on the capital structure and value of manufacturing companies. This study also examines the role of capital structure on the value of companies listed on IDX and SET during 2014-2018. This research using a quantitative approach using purposive sampling method, with the statistical test tool SPSS 26. The sample in this study was 35 companies in IDX and 11 companies in SET. The results showed that external factors affect the capital structure, findings on the internal factors of the IDX show that: ROA and size have an effect on the capital structure. Whereas in SET, internal factors: ROA, asset structure, NDTS affect the capital structure. Findings on the external factors of the IDX show that: Inflation, interest rates have an effect on firm value. Whereas in SET, external factors: inflation, interest rates, GDP have an effect on firm value. The findings on the internal factors of the IDX show that: ROA, Size have an effect on firm value. Whereas in SET, internal factors: ROA, asset structure, NDTS have an effect on firm

value. This study found that INOS and INOP did not affect company value, both for IDX and SET companies.

## INTRODUCTION:

In 2015, Indonesia and other Asian countries faced challenges in the economic sector due to China's economic growth's normalization. The impact of the global economic crisis for Indonesia is that the rupiah exchange rate against the US dollar (US $) has weakened, in August 2015, the rupiah exchange rate against US $ depreciated by around 19 percent (Rp. 14,067 / dollar - Rp. 11,394 / dollar) from the previous year (2014) or 11 percent compared to the beginning of the year (Rp. 14,067 / dollar - Rp. 12,519 / dollar). The inflation rate until July 2015 reached 7.26 percent, and the economic growth rate reached 4.5 - 4.8 percent. (Kompas, Monday 31 August 2015). Indonesia's economic growth for nine years (2010 to 2018) shows that economic growth tends to decline. The increase in Indonesia's economic growth from 2010 to 2015 2011 respectively amounted to 0.27%, -0.25%, -0.47%, -0.10%. From 2015 to 2017, it started to re-start). The increase in Indonesia's economic growth was due to the improvement in real exports in line with the increase in demand for trading partners in developed countries, while the decline in Indonesia's economic growth was caused by slowing domestic demand, which was also influenced by the decline in government consumption growth.

In other countries, for example, Malaysia, economic growth from 2010 to 2018 fluctuated, from 2011 to 2012, economic growth increased by 0.43%, from 2012 to 2013, economic growth decreased by 0.93%, from 2013 to 2014, economic growth experienced an increase of 1.33%, and from 2014 to 2018 economic growth experienced a decline of 1.03%, 0.55%, 1.35%, and 1.02%, respectively. The Philippines' economic growth fluctuated, from 2010 to 2011, economic growth fell by 3.98%, in 2013-2015 it decreased by 1.08%, and 0.10%, in 2016 - 2018 it decreased by 0.205 da, 0.45. From 2011 to 2012, the economic growth experienced an increase of 3.10%, from 2012 to 2013, the economic growth increased by 0.43%, and from 2015 to 2016, the economic growth also increased by 0.85%. Singapore's economic growth fluctuated slightly, from 2010 to 2011 economic growth fell 10.10%, from 2011 to 2012 economic growth fell by 2.8%, and in 2017 - 2018 it decreased by 0.55%, 2012 to 2016 / 2017 economic growth increased by 1.35%, 0.05%, 1.02%, 0.08%, and 0.77% respectively, then in 2017-2018 economic growth decreased by 0.55%. Thailand's economic growth is very volatile and tends to decline, from 2010 to 2011, and its economic growth has decreased quite sharply, namely by 7.70%, in 2011 to 2012, its economic growth has increased quite sharply, namely by 6.55%. From 2012 to 2013, and from 2013 to 2014, the economic growth decreased by 3.85% and 1.93%. 2014/2015 began to increase again until 2017-2018 of 2.15%, 0.25%, 0.685, 0.10% respectively.

The instability of the country's economy will lead to instability in external factors. In terms of external factors, increasing share prices will increase company value (Gitman and Zutter, 2012). Firm value is represented in the share price. According to Van Horn (2012), firm value is investors' perception of the company, often associated with stock prices. According to Brigham and Houston (2013), company value can be measured by Earning Per Share (PER) or the price-income ratio. Investors use PER to predict the company's ability to get profit in the future. Inflation is an indicator that describes the decline in the value of the currency (rupiah) and the increase in goods on the market. Inflation in ASEAN tends to fluctuate downward. The fluctuation of the inflation rate shows that the economic condition is not yet stable, so the price of goods needed by the people tends to increase. Meanwhile, economic growth is measured by Gross Domestic Product according to business fields at

constant prices. Economic growth occurs because, each period of time, society will increase its ability to produce goods and services using existing production factors. Thailand's interest rates fluctuated and tended to decline from 2010 to 2014, amounting to 1.56; 3.06; 2.94; 2.50; and 1.94 percent, and Indonesia has the highest interest rates and tends to increase, namely; 6.50; 6.56; 5.75; 6.63; and 7.56 percent. This shows that investment in Indonesia is still relatively high compared to several other Southeast Asian countries, especially Thailand.

Funding decisions have an important role in the survival of the company and the welfare of the company. Capital structure is a balance between funding in the form of loans consisting of permanent short-term debt, long-term debt with own capital consisting of preferred stock and common stock (Sjahrial, 2012). The capital structure that uses debt funds does not influence firm value (Modigliani and Miller, 1985). The phenomenon in determining firm value is not only internal factors for tangible assets but also intangible assets. Companies in the era of globalization have begun to provide a larger portion of the use of intangible assets such as knowledge assets in the process of wealth creation.

Profitability is a variable that affects the capital structure. In this study, profitability is represented by Return On Assets (ROA) by comparing net income with its total assets. Empirical studies conducted by Moh'd (1998), Lowe, Naughton, and Tayler (1994), Viviani (2008), Ekstrom and Kanaporyte (2015), and Hossain (2015) showed that profitability has a positive effect on the company's capital structure, however, it is different from Titman (1988), Pandey (2001), Chen (2004), Deesomsak, et al. (2004), Delcoure (2006) and Huang & Song (2006) which show the opposite result. Size is one of the company's factors in determining how big the capital structure is in meeting the size or size of the company's assets. Empirical studies conducted by Moh'h (1998), Deesomsak et al. (2004), Delcoure (2006), Huang & Song (2006), Pandey (2001), Chen (2004), Wolfgang, Schid, and Zimmermann (2004), Huang & Song (2008) found that size has an effect on capital, but Titman (1988), Lowe et (1994), Zou & Xiou (2006) found the opposite finding. Asset structure is an important requirement in bank credit policy for the long term. Empirical studies by Mohd et al. (1988), Chen (2004), Badhuri (2002), Huang & Song (2006), Jong et al. (2007) show a positive effect of asset structure on capital whereas, Pandey (2001), Crnigoj & Mramor (2009), Najjar & Hussainey (2011) found the opposite. Tax Shields Effects using the Non-Debt Tax Shield (NDTS) are the amount of non-cash costs that cause tax savings and can be used as capital to reduce debt. Empirical studies conducted by Moh'd (1998), Chakraborty (2010), Serrasqueiro (2011) stated that the Non-Debt Tax Shield has a positive effect on capital structure, while Chen (2004) and Akhtar (2005) found no relationship between Tax Shield. on Capital Structure.

Researchers chose Indonesia and Thailand because the rate of economic growth in Thailand is very fluctuating and below the average of Asian countries, while Indonesia tends to decline but is still above the average of Asian countries. Another reason is that inflation in Thailand tends to decline and is below the average for Asian countries, while Indonesia's inflation tends to increase and is above the average for Asian countries. Testing and analyzing external factors (Inflation, GDP, Interest Rates), internal factors (Profitability, Size, Asset Structure, Tax Shield), and innovative capital have a partial effect on the capital structure of manufacturing companies listed on the Indonesian and Thai stock exchanges. In this study, the researcher wishes to examine and analyze external factors (Inflation, GDP, Interest Rate), internal factors (Profitability, Size, Asset Structure, Tax Shield), and innovative capital, and capital structure partially affects firm value. In manufacturing

companies listed on the Indonesian and Thai stock exchanges. Furthermore, the researcher will examine the role of capital structure between economic parameters on firm value.

## LITERATURE REVIEW:

The capital structure balances the use of loan capital consisting of permanent short-term debt, long-term debt with own capital consisting of; preferred stock and common stock (Dermawan, 2008). So it can be said that the company leadership (financial manager) must find the right financing mix to achieve an optimal capital structure that will directly affect the company's value. The firm's value is equal to the market value of the shares plus the market value of the debt. If the amount of money is, then any increase in the value of the shares will increase the company's value, and if the value of the debt changes, the capital structure will change.

Maximizing company value is very important, and maximizing company value means maximizing shareholder wealth. According to Islam and Rasyid (2008), the value of a company can be defined as the amount of utility or benefit obtained from shares of a company by shareholders. According to Husnan (2005), firm value is when buyers are willing to pay when the company is liquidated. Firm value is a reflection of the addition of company equity to company debt. Firm value illustrates how management manages the company's wealth which can be seen from the measurement of financial performance. According to Mariono (2012), share price value is the most commonly used indicator in assessing company value because share price value represents company performance. An increase in the value of a company is usually indicated by an increase in the share price in the market. The higher the stock price, the higher the value of the company. An increase will follow the high value of the company in shareholder wealth. Indicators of firm value: Stock price, price to book value, and Tin's Q. The indicator of company value used in this study is to use Price Earning Ratio (PER). PER is the ratio of the market price share (market price per share) divided by earnings per share (earnings per share). The market price is the stock price in the market, as seen from the Closing Price. Meanwhile, Earning Per Share / EPS gives benefits to shareholders from each share they own. EPS is obtained from the comparison between earning after-tax (net profit) divided by the number of shares outstanding (Share Outstanding). From this PER, a good company value can be seen when the PER value is above one. If the higher the PER ratio, the better the company's value. Conversely, if PER is below one, it means that the company value is not good. So that investors' perceptions of the company are also not good because with a company value below one, it illustrates that the selling price of the company is low and the company's financial structure components are deteriorating.

### The Relationship Between External Factors And Capital Structure.

Inflation is a condition in which the value of a country's currency decreases and the price of goods increases systematically. This definition can be understood that inflation is a dangerous condition for the economy of a country. High inflation will reduce people's purchasing power for goods and services and decrease the level of company profits. Empirical evidence of the relationship between inflation and capital structure is explained by Taoulaou and Burchuladze (2014), Riana (2014), Natalia Makhova (2014). Based on the results of his research, he found that inflation has a positive and significant effect on the capital structure. The interest rate used is the Bank Indonesia interest rate. Interest rates are a cost of capital for the company, the increase in interest rates is an additional expense that the

company must bear. Empirical evidence of the relationship between interest rates and the capital structure includes Demodaran (1997), Taoulaou and Burchuladze (2014), Mokhova (2014) states that interest rates have a significant effect on capital structure. Gross Domestic Product is a barometer of economic growth. If economic growth is increasing/high, it is an indication that the investment prospects are good. Economic growth with firm value will move in the same direction because the increase in economic growth will be captured as a sign of increased investment activity. Empirical evidence of the relationship between economic growth and the capital structure includes (Rajan and Zingales 1995; Strebulaev et al. 2008; Subagyo 2009; Mufida 2012) states that economic growth has a significant effect on capital structure.

H1: Partially external factors have a significant influence on the capital structure.

**The Relationship Between Internal Factors And Capital Structure.**

Internal factors with indicators of profitability, size, asset structure, NDTS are factors that are easily controllable by company management. Return on assets (ROA), according to Weston and Brigham (2015:213), companies with high levels of profitability (ROA) generally use relatively small amounts of debt. This is due to high profitability (ROA), making it possible for companies to capitalize only with retained earnings. The greater the retained earnings, the greater the need for funds to be met from within the company and reduce the use of funds from debt, which will reduce the company's capital structure. Empirical evidence of the relationship between profitability and the capital structure includes (Mayangsari 2000; Deesomsak et al. 2004; Kartini and Arianto 2007; Naomech 2012; Hosain and Ali 2012; Alam 2013; Akinyomi 2013; Safitri 2014; Proenca et al. 2014; Handoo and Sharma 2014; Ekstrom and Kanaporyte 2015), stated that profitability has a negative and significant effect on capital structure and It has a positive and significant effect on firm value. Based on the trade-off theory, large companies are expected to have a higher debt capacity and find it easier to obtain debt. So that the size of the company (Size) has a significant influence on the capital structure. The research results (Mayangsari 2000; Chen 2004; Deesomsak 2004; Kartini and Arianto 2007, Akinyomi 2013; Handoo 2014; Kavitha 2014; Hussain and Miras 2015; Ekstroom and Kanaporyte 2015) stated that size has a significant effect on capital structure. Increasing asset structure means that the company's fixed assets will increase, which results in working capital and the ability of the company to meet the company's obligations. Maturity will decrease so that the company will require capital from shares as a result, the company's value will decrease. Research conducted by (Anastasia et al. 2011; Mayangsari 2000; Naomech 2012; Akinyomi & Olagunju 2013; Handoo 2014; Proenca et al. 2014, Taoulaou & Burchuladze 2014; Hussain & Miras 2015; Ekstroom & Kanaporyte 2015) stated that Asset Structure has a significant influence on capital structure. R with the Non-Debt Tax Shield (NDTS) indicates the availability of internal funds derived from tax savings on depreciation and amortization. The higher the NDTS, the lower the debt, which means that NDTS has a significant effect on the capital structure. The results of the research were conducted by (Deesomsak 2004; Akinyomi 2013; Handoo (2014), Kavitha 2014; Hussain and Miras 2015; Ekstrom and Kanaporyte 2015). Stated that NDTS has a significant influence on capital structure.

H2: Internal factors partially have a significant influence on the capital structure.

**The Relationship Between The Innovative Factors Of Capital And The Capital Structure.**

Based on the trade-off theory in innovative capital financing in the form of R&D, companies will use debt because debt will reduce the cost of capital so that the capital structure will be achieved optimally. The optimum point is not achieved because of agency cost and bankruptcy cost, so that the debt will impact company performance. There are still few studies on the effect of innovative capital on capital structure. Previous researchers stated that innovative capital has a positive effect on capital structure, this is supported by Lufuente (1985), Masulis (1983), Sharma (2006).

H3: Innovative capital partially has a significant effect on capital structure.

**The Relationship Between External Factors And Firm Value.**

The firm value indicates conditions that occur in the market, which are manifested in the stock price. As the stock price increases, the company value increases accordingly. External or macroeconomic factors influence firm value. External factors with indicators of inflation, interest rates, GDP. External factors/macro or macroeconomic factors are economic and monetary conditions within the company's operating activities. Economic and monetary conditions will affect the stock price or the value of the company. Empirical studies that have examined the influence of external factors on firm value include:

(Eduardus 1997; Dewi 2001; Siti 2004) stated that inflation has a significant effect on firm value because the higher the inflation rate, the lower the firm value. Suryanto (1998), Sudjono (2002) stated that interest rates significantly affect firm value. High-interest rates will decrease share prices. (Nieuwerburgh 2005; Robiatul and Ardi 2006) state that GDP has a significant effect on firm value. With good economic growth, the company value will increase.

H4: Partially external factors have a significant effect on firm value.

**The Relationship Between Internal Factors And Firm Value.**

Internal factors are factors that exist in the company and can be said as company performance. Internal factors for investors are a picture or signal to decide whether to invest or not to invest. Internal factors are indicated by profitability, company size (size), asset structure, and non-debt tax shield. The performance of good internal factors will attract investors to buy company shares in the capital market so that the stock price will increase/increase and the company value as well will increase. Empirical studies that have examined the influence of internal factors on firm value include Sari (2005), Hermuningsih (2013), and Safitri (2014), which states that profitability has a significant effect on firm value. Sofyaningsih & hardiningsih (2011). States that size has a significant effect on firm value. Anastasia, Gunawan, and Wijaya (2011) state that Asset Structure has a significant effect on firm value. (Deesomsak 2004; Handoo 2014) state that NDTS has a significant effect on firm value.

H5: Partially, internal factors have a significant effect on firm value.

**The Relationship Between Innovative Capital And Firm Value.**

Companies need innovation to exist in the business world. Research and development (R&D) have an important role in economic growth because it will produce products that have a competitive advantage to increase company revenue and profits. Investors will respond

positively to good company prospects, which will increase share prices and company value. According to the theory of Resources Based Theory, the very important characteristics of innovation are information-based and can be developed continuously over time (Wernerfelt, 1984:1740). R&D has an important role in improving financial performance, which will ultimately impact increasing company value. Empirical studies that have examined the effect of innovation on firm value include (Pidado et al. 2010; Block 2012; Lu et al. 2010; Gleason & Klock 2006), which state that innovative capital has a significant effect on firm value.

H6: Innovative capital partially has a significant effect on firm value.

**The Relationship Between Capital Structure And Firm Value.**

The capital structure in influencing firm value is strengthened by the Modigliani-Miller (MM) theory assuming a tax. This theory, according to Luke (2003: 259), states that "MM concludes that the use of debt (leverage) will increase company value because debt interest costs are costs that reduce tax payments (a tax-deductible expense)." The increase in company value occurs due to debt interest costs which reduce tax payments so that the operating profit, which is the right of investors, will be even greater. So an increase in debt along with an increase in capital structure will increase firm value. This research is supported by researchers Masdar (2008) and Rahmawati (2013).

H7: Partial capital structure has a significant effect on firm value.

## METHODOLOGY:

This research is a type of explanatory research. The population of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2014 - 2018 was 167 companies, while on the Stock Exchange of Thailand (SET), there were 175 companies. The type of data used is secondary data. Sources of data in this study were obtained from the Indonesia Stock Exchange (www.IDX.co.id), Indonesia Capital Market Directory (ICMD), Bank Indonesia (www.bi.go.id), Financial Services Authority/OJK (www.ojk.go.id), and the Stock Exchange of Thailand (www.set.or.th) from 2010 to 2018. The statistical test tool in this study uses SPSS 26. Path analysis is the use of regression analysis to estimate the relationship between variables.

## RESULTS AND DISCUSSION:

Path analysis uses regression analysis to estimate the causal relationship between variables (causal models) that have been previously determined based on theory. Path analysis is used to analyze the pattern of relationships between variables to determine the direct or indirect effect of a set of independent (exogenous) variables on the dependent (endogenous) variable.

The value of the path coefficient shows the effect of the variable inflation (Infl), Interest Rate (SB), GDP, ROA, Size, Asset Structure (SA), NDTS, Inos, and Inop on the variable Y1 (DER) for equation 1. Equation 2, the path coefficient shows the influence of the Inflation (Infl), Interest Rate (SB), GDP, ROA, Size, Asset Structure (SA), NDTS, INOS, INOP, and DER variables on the variable Y2 (PER). Path coefficient analysis for manufacturing companies in Indonesia and Thailand.

**Table 1.: Summary of Effects between Variables**

| Variable | Manufacturing Company | |
|---|---|---|
| | IDX | SET |
| Inflation → DER | significant effect | significant effect |
| Interest rate → DER | significant effect | significant effect |
| PDB → DER | significant effect | significant effect |
| ROA → DER | significant effect | significant effect |
| Size → DER | significant effect | no significant effect |
| Asset Structure → DER | no significant effect | significant effect |
| NDTS → DER | no significant effect | significant effect |
| INOS → DER | no significant effect | no significant effect |
| INOP → DER | no significant effect | significant effect |
| Inflation → PER | significant effect | significant effect |
| Interest rate → PER | significant effect | significant effect |
| PDB → PER | significant effect | significant effect |
| ROA → PER | significant effect | significant effect |
| Size → PER | significant effect | no significant effect |
| Asset Structure → PER | no significant effect | significant effect |
| NDTS → PER | no significant effect | significant effect |
| INOS → PER | no significant effect | significant effect |
| INOP → PER | no significant effect | significant effect |
| DER → PER | significant effect | significant effect |

The result of the indirect effect test is done by using the Sobel Test. The indirect test was carried out by comparing the Y Sobel results with the Y table. If Y Sobel is greater than the Y table, it can be said that there is an indirect effect between variable X on variable Y2 through Y1. The test results with Sobel Tes are shown in the table below:

**Table 2: Summary of Indirect Effect Testing results**

| No | Indirect Influence | BEI | SET |
|---|---|---|---|
| 1 | Inflation → DER → PER | Mediating | Mediating |
| 2 | SB → DER → PER | Mediating | Mediating |
| 3 | PDB → DER → PER | Mediating | Mediating |
| 4 | ROA → DER → PER | Mediating | Mediating |
| 5 | Size → DER → PER | Mediating | Not Mediating |
| 6 | SA → DER → PER | Not Mediating | Mediating |
| 7 | NDTS → DER → PER | Not Mediating | Mediating |
| 8 | INOS → DER → PER | Not Mediating | Not Mediating |
| 9 | INOP → DER → PER | Not Mediating | Mediating |

The results showed that inflation on the capital structure. The effect of inflation on the capital structure shows an influence. The statistical results of interest rates on invoice companies at IDX and SET significantly affect capital structure. The research results on the Gross Domestic Product of the invoice companies at IDX and SET have a significant effect on the capital structure. Inflation, interest rates, and PDF from research results show that all three have a positive and significant effect on capital structure. Inflation, interest rates, and

GDP (external factors) of manufacturing companies in SET are better than in IDX, because the level of significance is less than 0.001; 0.004; 0,000) than the manufacturing company in IDX (0.047; 0.006; 0.005). The study results prove Hypothesis 1, which states that external factors have a significant influence on the proven capital structure.

As measured by Return On Assets in manufacturing companies in IDX and SET, profitability shows the results that influence profitability and capital structure. However, the manufacturing company in SET has no influence. In accordance with the opinion of Myers da Majluf (1984) that a company must have sufficient deposits of funds (cash, short-term securities) so that it does not need to issue debt to expand the company. The company will keep its retained earnings to create a substantial cash reserve. The asset structure of the manufacturing company at IDX does not affect the capital structure. The research results on manufacturing companies in Indonesia (IDX) show that NDTS does not have a significant effect on capital structure. NDTS shows the amount of depreciation and amortization that causes tax savings that do not come from debt and can be used as capital to reduce debt (De Angelo and Masulis, 1980). Depreciation expense is a non-cash cost of cash inflows in the company's internal funding. The greater the depreciation cost, the greater the cash inflow in the company, so the smaller the need for external funds (debt). The research results on companies in Indonesia show that there are tax savings that do not come from debt but come from depreciation. In manufacturing companies, depreciation value is a non-cash expense that is not significant enough to increase the company's cash flow. Depreciation costs in manufacturing companies in Indonesia are small and are directly charged to the income statement, so they do not affect the company's capital structure. This result is not in accordance with the hypothesis of Hypothesis 2. However, different results were found in manufacturing companies in SET, and the asset structure has an effect on the capital structure.

Based on the research results, the analysis of the influence of innovative capital on the capital structure shows that the results do not affect both the manufacturing companies in IDX and SET. This means that Hypothesis 3 is rejected, and this states that innovative capital activities are not funded by debt but are mostly funded by retained earnings. This shows that managers are more risk-averse (avoiding risk), avoiding innovative capital projects to increase company risk. The results of this study are in line with research conducted by (Opler and Titman 1993; Seru 2007; Ridha and Bajka 2010; Chang and Song 2014), and reject the research results from (Lufuente 1985; Masulis 1983; Sharma 2006). In testing Hypothesis 4, the study results show that inflation in manufacturing companies in IDX has an effect on the value of manufacturing companies in both IDX and SET. Likewise, interest rates have an effect on the firm value both on IDX and SET. However, different results were found related to the relationship between Gross Domestic Product. In this study, it was found that only manufacturing companies in SET had an effect on firm value.

Hypothesis 5 testing shows the results that ROA has an effect on Firm Value in both the IDX and SET manufacturing companies. However, different results are shown in size on firm value, where size does not affect the value of manufacturing firms listed in SET. The size of the company can indicate the condition of the company, which should provide a signal about the strength of the company's assets or as an opportunity to get an opportunity for funding and investment sources, but the existing signal does not inform the company's financial strength or as an opportunity to gain profit. Firm Value and the effect of NDTS on Firm Value, respectively, show a significant effect, however, this is only found in SET companies.

In testing hypothesis 6, it was found that INOS did not affect Firm Value, both in manufacturing companies listed in IDX and SET. These results indicate that the higher the innovative capital, the higher the company value. This means that innovative capital to firm value is related to the return that the company receives. The research findings that state that innovative capital affects firm value support the innovation theory, which states that information asymmetry between investors and company managers connects with innovation. The results of the study support research from (Sorescu and Spanjol 2008; Edi and Susanti 2019), and do not support research from: (Gleason & Klock 2006; Pidado et al. 2010; Lu et al. 2010; Block 2012). The opposite results in testing Hypothesis 7 show that both the manufacturing companies in IDX and SET show a positive relationship between Capital Structure and Firm Value.

## CONCLUSION:

In manufacturing companies in Indonesia and Thailand, increasing external factors (inflation, interest rates, and GDP) will affect companies in determining their capital structure to a certain extent so that operations can run smoothly. Manufacturing companies, increasing corporate profits encourage companies to prioritize internal company funding, large manufacturing companies in Indonesia provide access for companies to gain investor confidence in investing in companies, and it is easy to obtain financing from debt. In manufacturing companies in Thailand, a large asset structure can further obtain funding from creditors. Asset values are large, and the depreciation value will be large. Here, cash in the incoming cash flow can be used for development within the company so that the capital structure increases. Innovative capital, which is proxied by (INOP), affects the capital structure. External factors (inflation, interest rates, and GDP) affect stock prices, and if external factors increase, stock prices increase so that firm value increases. High profitability will give investors good signals so that the stock price will rise and the company value will increase. Large size will attract investors to invest so that the stock price will increase and the company value will increase. Companies in Thailand have a large asset structure that means that they have a large set of fixed assets so that the price of the company value increases and a large NDTS because of the cash inflow from depreciation, the company value increases. Capital structure affects firm value both in manufacturing companies in Indonesia and Thailand because the debt value of manufacturing companies does not exceed the optimal limit, increasing debt will increase firm value. Capital structure has a role in mediating between economic parameters and firm value.

The next researcher needs to examine the external and internal factors for the five ASEAN countries (Malaysia, Indonesia, Singapore, the Philippines, and Thailand) regarding their capital structure and firm value. Companies determining their capital structure need to pay attention to external factors (inflation, interest rates, and GDP), internal (profitability, size, company size, non-debt tax shield, capital innovation) so that the firm's value can increase. This research is further developed for other sectors that have different characteristics.

The limitations of this study are: The sample used in this study is still small because it only uses a sample of 35 issuers in manufacturing companies in Indonesia and for manufacturing companies in Thailand using a sample of 11 issuers. Second, there are difficulties in accessing data on manufacturing companies in Thailand. Meanwhile, the third found difficulties accessing JCI data for Malaysia, Singapore, the Philippines, and Thailand. This research is expected to provide implications. This research can be used as input/consideration for decision-makers at manufacturing companies in Indonesia and

Thailand in assessing financial management decisions that have linked macroeconomic variables. It is necessary to pay attention to the factors of inflation, interest rates, economic growth (GDP), profitability, size (company size), asset structure, non-debt tax shield, capital innovation (innovation on sales, and innovation on profit) on capital structure and firm value. . Practically, this research is expected to add insight to decision-makers and make policies, especially investors, potential investors, and company leaders in the manufacturing sector. We recommend that company leaders be more innovative in developing their products and disclose the cost of research and development (R&D) in their financial reports.

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