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Corporate Governance Mechanism and Capital Structure Decision: Evidence from Indonesia

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Abstract

Purpose: Decisions related to the capital structure are crucial for companies because the proportion of funding from debt and equity determines the company's value and is directly related to shareholders' welfare. This study aims to examine how corporate governance affects the capital structure.

Method: Board size, board independence, ownership concentration, audit reputation, management ownership, and institutional ownership are the independent variables considered in this study. In contrast, control variables were defined as firm size, liquidity, profitability, and growth. In order to determine how corporate governance affects capital structure in a sample of 395 non-financial companies listed on the Indonesia Stock Exchange, this study employs multiple linear regression analysis.

Result: The capital structure is significantly impacted negatively by board size, ownership concentration, firm size, profitability, and growth while positively impacted by independent commissioners, auditor reputation, managerial ownership, and institutional ownership. Liquidity has no impact on the capital structure.

INTRODUCTION

One of the three primary activities in corporate finance is figuring out a company's capital structure. Decisions related to the capital structure are crucial for companies because the proportion of funding from debt and equity determines the company's value and is directly related to shareholders' welfare. Huang and Ye (2021) state that the company's capital structure policy also plays an important role when a market crash occurs, as happened in Indonesia some time ago due to the emergence of COVID-19. Under these conditions, companies must design an optimal capital structure to minimize costs by considering the risks and responsibilities arising from each funding source. Companies must implement corporate governance practices to ensure managers take actions that align with the company's main objective of maximizing shareholder welfare and are fully responsible for other stakeholders. According to Aman and Nguyen (2013), businesses with sound corporate governance have more accessible and less expensive access to funding sources. What corporate governance factors affect the company's capital structure has yet to be discovered. Several prior studies that looked at the relationship between corporate governance and capital structure, including those by Detthamrong et al. (2017), Herlambang et al. (2018), Siromi and

Chandrapala (2017), and Sheikh (2019), have produced conflicting findings. As a result, more research into this topic is encouraged. The size of the board of commissioners, independent commissioners, ownership concentration, auditor repute, management ownership, and institutional ownership are all used in this study as independent variables for corporate governance. Meanwhile, the control variables are company size, liquidity (current ratio), profitability (ROA), and company growth.

The research results that examine the size of the board of commissioners on leverage show varied results. Detthamrong et al. (2017) found that the board size variable had a positive but insignificant effect on leverage. Meanwhile, research conducted by Herlambang et al. (2018) shows that the size of the commissioners' board significantly negatively affects leverage. On the other hand, Siromi and Chandrapala (2017) and Kumalasari et al. (2019) found that board size has a negative but insignificant effect on leverage. This result is similar to the research results of Detthamrong et al. (2017) after companies are grouped into large and small firms, where in small companies, the size of the board of commissioners has a negative and insignificant effect on leverage. However, when Detthamrong et al. (2017) researched large companies, it was found that the size of the board of commissioners had a significant positive effect on leverage, similar to the results of Sheikh's research in 2019. However, based on agency theory, companies with a large board size tend to reduce the use of debt because the supervision carried out by the board of commissioners reduces the function of debt as a tool to monitor management. In addition, a large board size will provide stricter supervision and result in more complex decisions.

Not only that, in his research, Detthamrong et al. (2017) found that the independent commissioner variable, which is expressed as the number of independent commissioners in the company, has a negative and insignificant effect on leverage. Slightly different results were found in research conducted by Herlambang et al. (2018). The measurement of independent commissioners in this study was carried out by dividing the number of independent commissioners by the total board of commissioners in the company. The results stated that independent commissioners had a significant adverse effect on leverage. Siromi and Chandrapala (2017) found that independent commissioners, reflected in the percentage of independent commissioners to the total board of commissioners, significantly positively affect leverage. This positive indicates that independent commissioners in the company will increase the use of debt. This statement is supported by Sheikh (2019), who also examined the effect of the independent commissioner variable on leverage, but Sheikh (2019) only found an insignificant positive effect of independent commissioners on leverage. On the other hand, based on agency theory, companies with independent commissioners tend to reduce debt because the presence of independent commissioners already represents shareholders in overseeing the company's management and preventing agency problems.

Ownership concentration found that this variable positively influences leverage, but the way this variable is measured is different in both journals. In their research, Detthamrong et al. (2017) measured ownership concentration as the number of common shares held by the three largest shareholders. Sheikh (2019) measured ownership concentration as the proportion of ordinary shares held by the five largest shareholders. Detthamrong et al. (2017) found an insignificant positive relationship between ownership concentration and leverage, while Sheikh (2019) found a significant positive relationship between ownership concentration and leverage. This condition is by agency theory and can be understood as an effort by shareholders to monitor management to minimize agency problems. Shareholders in companies with high ownership concentration will encourage managers to use debt to increase control and reduce the cash flow available to managers.

Then, the researchers also examine the effect of audit reputation (hereafter translated as auditor reputation) on decisions related to the use of leverage. The auditor reputation variable is assigned a number 1 if the company is audited by one of the Big Four KAP (Ernst & Young, Deloitte, KPMG, and PricewaterhouseCoopers) and is assigned a number 0 if the company's auditor is not one of the four auditors. Herlambang et al. (2018) found that auditor reputation has a significant negative effect on leverage, and the same thing was found by Detthamrong et al. (2017) in their research. However, the negative effect of auditor reputation on leverage is not

significant. When associated with signaling theory, the selection of quality auditors can reduce information asymmetry between shareholders and managers because the information published in the financial statements can signal the company's condition for shareholders. Financial statements audited by reputable auditors can increase the accuracy and reliability of the information listed to reduce agency problems and reduce the function of debt in monitoring management activities.

In their research, Siromi and Chandrapala (2017) also found that the managerial ownership variable has an insignificant negative effect on leverage. This negative effect is also found in the research results of Kumalasari et al. (2019), which show that managerial ownership has a significant negative effect on leverage. However, this contradicts the findings of Herlambang et al. (2018) and Sheikh (2019), who state that the relationship between the two variables is positive. Herlambang et al. (2018) found a significant positive relationship between managerial ownership and leverage, while Sheikh (2019) found a positive but insignificant relationship between managerial ownership and leverage. This relationship is in line with agency theory, where when managers also own company shares, the interests of managers will be aligned with the interests of other shareholders who want to increase company value to maximize shareholder wealth. This condition can minimize agency problems and encourage managers to use debt as a source of funding to obtain benefits in the form of tax savings. In addition, based on signaling theory, when a company decides to use debt, it is a signal that management is confident in the company's future ability to repay the debt so that this can be captured as a positive signal regarding the company's prospects (Gitman & Zutter, 2015, p.586).

Research on the effect of institutional ownership on leverage conducted by Herlambang et al. (2018) and Kumalasari et al. (2019) also shows conflicting results. Herlambang et al. (2018) found that institutional ownership has a significant positive effect on leverage, while Kumalasari et al. (2019) found an insignificant negative relationship between institutional ownership and leverage. However, if understood using agency theory, institutional ownership in the company will encourage the use of debt as a funding source to oversee company management and reduce agency problems.

Based on the explanation above, the primary problem formulation will be detailed into

1. Does the size of the board of commissioners hurt capital structure?
2. Does an independent commissioner hurt capital structure?
3. Does ownership concentration have a positive effect on capital structure?
4. Does auditor reputation hurt capital structure?
5. Does managerial ownership have a positive effect on capital structure?
6. Does institutional ownership have a positive effect on capital structure?

The capital structure was notably negatively impacted by the size of the board of commissioners (Zaid et al., 2020; Sewpersadh, 2019). This condition happens because managers in companies with a large board of commissioners size will reduce the use of debt to reduce the number of parties overseeing manager performance (Herlambang et al., 2018). Zaid et al. (2020) added that this negative effect could occur because a large board of commissioners will increase the effectiveness of monitoring the company's operational activities to reduce agency conflicts. In addition, the board of commissioners frequently encourages management to limit the usage of debt in order to lower potential financial risks (Sewpersadh, 2019).

H1: The capital structure is negatively impacted by the size of the board of commissioners.

The independent commissioners significantly adversely affect capital structure (Herlambang et al., 2018; Dimitropoulos et al., 2014). The risk of conflicts of interest between management and shareholders might be reduced if independent commissioners are present (Dimitropoulos, 2014). Companies with independent commissioners generally have high credit ratings and lower yields, so companies prefer debt issuance to meet their funding needs. Dimitropoulos (2014) also emphasizes that managers who have received close supervision from corporate governance mechanisms tend to reduce the use of debt (Herlambang et al., 2018).

H2: Independent commissioners hurt capital structure.

The ownership concentration significantly positively affects capital structure (Sheikh, 2019). A high level of ownership concentration in the company reflects the weak corporate governance that is carried out (Sheikh, 2019). Hence, one way to increase the supervision of managers is to use debt. According to Sheikh and Wang (2012), stockholders ability to influence management choices and their encouragement of managers to pursue choices that enhance shareholder welfare, including using debt funding, can help decrease agency difficulties in companies with concentrated ownership.

H3: Ownership concentration has a positive effect on capital structure

The auditor's reputation significantly negatively affects capital structure (Herlambang et al., 2018). This negative effect is because financial reports that reliable external auditors have audited will be of higher quality, which will reduce information asymmetry between managers and shareholders and have an effect on lowering equity cost, making funding through equity more appealing than funding through debt. A similar result was discovered by Mande et al. (2012), who observed that the auditor's reputation significantly negatively impacts the capital structure. Companies with good auditor reputations tend to use equity funding because the problem of adverse selection (investment selection that does not maximize shareholder welfare) can be minimized by accurate income reporting (Mande et al., 2012). When a trustworthy corporation audits the business, the agency issue will be less of an issue, and the role of debt as a company bonding mechanism will be less critical. H4: Auditor reputation negatively affects capital structure

Research shows that managerial ownership significantly improves capital structure (Dimitropoulos, 2014; Bokpin & Arko, 2009; Sewpersadh, 2019). High managerial ownership companies will employ debt more frequently. The managerial ownership in the business will lessen the agency problem since managers have the same goals as shareholders to increase the value of the business (Herlambang et al., 2018). This condition makes banks more confident in providing loans to companies. Managers who own company shares prefer funding using debt over equity (Dimitropoulos, 2014; Herlambang et al., 2018). This condition happens because funding using debt will not reduce the proportion of ownership and can reduce agency costs (Sewpersadh, 2019). Furthermore, Bokpin and Arko (2009) explain that managers who also act as shareholders tend to use debt funding because of the benefits in the form of tax shields that can improve shareholder welfare.

H5: Managerial ownership affects capital structure favorably.

Institutional ownership has a robust favorable impact on capital structure (Herlambang et al., 2018; Dimitropoulos et al., 2014). Institutional investors can operate as lenders and a useful monitoring tool for managerial and strategic decisions, which will cut down on agency costs and managerial opportunism (Herlambang et al., 2018). This circumstance increases the capital owners' trust in the organization, making it more straightforward for the company to secure financing. Institutional ownership, defined as the presence of institutional investors in the company, can increase the effectiveness of corporate governance because institutional investors will demand good governance to protect the capital invested in the company, according to Bhojraj and Sengupta (2003) and Mande et al. (2012). Furthermore, Dimitropoulos (2014) shows that institutional investors prefer debt financing because it does not reduce their control over the company. Debt can also be used as a tool to supervise managers.

H6: Institutional ownership has a positive effect on capital structure.

RESEARCH METHODS

Eleven factors will be considered in this investigation. The eleven variables are divided into six independent variables consisting of board size (BD_SIZEi,t), independent commissioners (BD_INDi,t), ownership concentration (OWN_TOP3i,t), auditor reputation (AUD_REPi,t), managerial ownership (MAN_OWNi,t), and institutional ownership (INS_OWNi,t); 4 control variables consisting of company size (SIZEi,t), liquidity (CRi,t), profitability (ROAi,t), and

company growth (GROWTHi,t); and one dependent variable, namely capital structure-debt ratio (DRi,t). By counting the number of commissioners in the corporation, the size of the board of commissioners is determined. The number of independent commissioners is calculated by dividing it by the total number of company commissioners. Ownership concentration is calculated by dividing the number of shares owned by the three largest shareholders by the total number of outstanding shares. Giving a score of 1 to businesses audited by the Big 4 and 0 to businesses not audited by the Big 4 is one way to gauge an auditor's reputation. Managerial ownership is calculated by dividing the total number of shares owned by managers by the total number of outstanding shares. Institutional ownership is calculated by dividing the total number of shares held by institutional investors by the total number of outstanding shares. Company size is calculated using the natural logarithm of the company's total assets. The current ratio, which compares current assets to current liabilities, is a proxy for liquidity. The ratio of net income to total assets, or return on assets (ROA), serves as a benchmark for profitability. Company growth is measured through the natural logarithm of the ratio between year t revenue and year t-1 revenue.

The study's target population is all non-financial sector businesses listed on the Indonesia Stock Exchange between 2016 and 2020. The population features from which samples will be drawn are: 1. The company comes from the non-financial sector listed on the Indonesia Stock Exchange (IDX) in the 2016-2020 period; 2. The company publishes audited annual reports annually from 2016-2020; 3. The availability of data needed to measure all variables needed, both independent, dependent, and control variables. 4. Based on these characteristics, 395 companies met the criteria as samples.

The research uses panel data, so conducting Chow and Haussman tests is necessary to determine the best model to interpret. The following equation will be used to process the data in this study using the multiple linear regression method:

$$DR_{i,t} = \propto + \beta_1 BD\_SIZE_{i,t} + \beta_2 BD\_IND_{i,t} + \beta_3 OWN\_TOP3_{i,t} + \beta_4 AUD\_REP_{i,t} + \beta_5 MAN\_OWN_{i,t} + \beta_6 INS\_OWN_{i,t} + \beta_7 SIZE_{i,t} + \beta_8 CR_{i,t} + \beta_9 ROA_{i,t} + \beta_{10} GROWTH_{i,t} + e$$

RESULTS & DISCUSSION

In Table 1, it can be seen that the correlation between the independent variables has no value greater than 0.8 and smaller than -0.8. This indicates the absence of multicollinearity symptoms in the data used in this study.

Table 1.
Correlation Between Variables

	BD_SIZE	BD_IND	OWN_TOP3	AUD_REP	MAN_OWN	INS_OWN	SIZE	CR	ROA	GROWTH
BD_SIZE	1.00	-0.12	-0.05	0.29	-0.10	0.01	0.52	-0.05	0.08	0.03
BD_IND	-0.12	1.00	0.02	-0.04	-0.06	0.03	0.03	0.02	0.01	-0.02
OWN_TOP3	-0.05	0.02	1.00	0.14	-0.04	0.56	-0.12	0.01	0.09	0.04
AUD_REP	0.29	-0.04	0.14	1.00	-0.07	0.15	0.37	-0.03	0.15	0.06
MAN_OWN	-0.10	-0.06	-0.04	-0.07	1.00	-0.44	-0.09	-0.01	0.01	-0.01
INS_OWN	0.01	0.03	0.56	0.15	-0.44	1.00	-0.12	0.01	0.04	0.02
SIZE	0.52	0.03	-0.12	0.37	-0.09	-0.12	1.00	-0.09	0.12	0.07
CR	-0.05	0.02	0.01	-0.03	-0.01	0.01	-0.09	1.00	-0.01	-0.10
ROA	0.08	0.01	0.08	0.15	0.01	0.04	0.12	-0.01	1.00	0.15
GROWTH	0.03	-0.02	0.04	0.06	-0.01	0.02	0.07	-0.10	0.15	1.00

The research uses panel data, so conducting Chow and Haussman tests is necessary to determine the best model to interpret. The Chow test results to choose between the pooled least square (PLS) and fixed effect (FE) models are presented in Table 2. Based on Table 2, it can be seen that the cross-section F probability value is 0.0000. The probability value of F, which is

smaller than 0.05, leads to the decision to reject H¬¬0 so that it can be concluded that with a confidence level of 95%, the fixed effect (FE) model is better than the pooled least square (PLS) model. These results require further testing using the Hausman test to determine which model is better for this study: fixed effect (FE) or random effect (RE).

Table 2.
Chow Test Result

Effects Test	Statistic	d.f.	Prob.
Cross-section F	31.827753	(386,1538)	0.0000
Cross-section Chi-square	4249.043462	386	0.0000

The results of the Hausman test to choose between the fixed effect (FE) and random effect (RE) models are presented in Table 3. Based on Table 3, it can be seen that the cross-section random probability value is 0.0000. The random cross-section probability value that is smaller than 0.05 leads to the decision to reject H-0 so that it can be concluded that with a confidence level of 95%, the fixed effect (FE) model is better than the random effect (RE) model.

Table 3.
Haussman Test Result

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	66.651640	10	0.0000

Table 4 displays the outcomes of data processing using Fixed Effect Model White Cross Section Method (weights).

Table 4.
Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.250111	0.240784	5.191838	0.0000
BD_SIZE	-0.011177	0.001430	-7.815170	0.0000
BD_IND	0.124066	0.017258	7.188829	0.0000
OWN_TOP3	-0.046191	0.009867	-4.681150	0.0000
AUD_REP	0.035358	0.005955	5.937044	0.0000
MAN_OWN	0.197450	0.020632	9.570026	0.0000
INS_OWN	0.025648	0.007126	3.599352	0.0003
SIZE	-0.025628	0.008697	-2.946638	0.0033
CR	-3.31E-05	2.16E-05	-1.536362	0.1247
ROA	-0.219181	0.036284	-6.040681	0.0000
GROWTH	-0.005430	0.002105	-2.579749	0.0100
R-squared			0.981343	
Adjusted R-squared			0.976539	
F-statistic			204.2816	
Prob (F-statistic)			0.000000	

The capital structure is significantly impacted negatively by the board size variable. This finding follows the research hypothesis and is supported by the results of research by Herlambang et al. (2018), Dimitropoulos (2014), and Sewpersadh (2019). Pecking order theory and agency theory can be used to explain this; according to pecking order theory, businesses prioritize internal funding over external funding, including both debt and equity and according to agency theory, stringent oversight of a sizable board of commissioners can reduce the use of debt as one of the management's supervisory mechanisms. Zaid et al. (2020) added that a large board size would increase the effectiveness of monitoring the company's operational activities to reduce agency conflicts.

The independent commissioner variable has a significant positive effect on capital structure. This finding follows the results of research by Siromi and Chandrapala (2017) and Sheikh and Wang (2012). However, it contradicts this study's hypothesis, which suspects independent commissioners' adverse effect on capital structure. Sheikh and Wang (2012) explain that the positive effect of independent commissioners on capital structure occurs because the presence of independent commissioners in the company will increase the monitoring of management so that managers will be encouraged to make decisions that can maximize shareholder welfare, one of which is the use of debt. In addition, Siromi and Chandrapala (2017) also state that the presence of independent commissioners can ensure manager accountability in the eyes of shareholders and reduce agency problems that may occur. It will increase bondholder confidence in the company and make it easier for companies to obtain debt funding.

The capital structure is strongly adversely affected by the ownership concentration variable. This discovery builds upon that of Boateng et al. (2017) and Sewpersadh (2019). This result contradicts this study's hypothesis, which surmises that ownership concentration favors capital structure. Boateng et al. (2017) explain that the concentration of ownership in the company will lead to practical monitoring activities so that the opportunity for agency problems can be minimized. High ownership concentration will provide encouragement and great authority for shareholders to monitor managers to reduce the opportunity for managerial entrenchment. Under these conditions, managers faced with strict supervision from investors will reduce the use of debt (Boateng et al., 2017). Conversely, in companies with low/unconcentrated ownership concentration, managers have less supervision, so using debt as a source of funding can help supervise management (Jensen & Meckling, 1976; Wahyuni et al., 2013).

The capital structure is significantly impacted favorably by the auditor reputation variable. This finding, which contradicts the study's hypothesis that auditor reputation favors capital structure, contrasts those of Feito-Ruiz et al., (2021). Detthamrong et al. (2014) explain that companies audited by reputable auditors will have high-quality financial reports to build credibility and make it easier for companies to obtain loans. Feito-Ruiz et al. (2021) add that parties who lend funds to companies audited by the Big 4 believe their interests are protected. Hence, lenders are more confident about lending their money to the company because they believe that the company will not misuse the loan given. Furthermore, Feito-Ruiz et al. (2021) explain that using reputable auditor services will lead the company to more favorable debt agreement terms and can reduce debt costs, so companies tend to increase the use of debt.

The management ownership variable significantly positively impacts the capital structure. The findings of the research by Herlambang et al. (2018) and Dimitropoulos support this finding and the research hypothesis (2014). According to Dimitropoulos (2014), management ownership might lessen agency conflicts between managers and shareholders because the interests of both parties are aligned. In this case, managers who are also shareholders of the company have the same interests as shareholders, so managers will take

actions that can increase company value by using debt (Dimitropoulos, 2014). Furthermore, Sewpersadh (2019) explains that managers who own company shares tend to fund existing investment projects using debt because funding using debt will not reduce the proportion of manager ownership in the company and can reduce agency costs.

The institutional ownership factor significantly improves the capital structure. Contrary to the study by Hussainey and Aljifri (2012), which reveals that institutional ownership has a significant negative effect on capital structure, this finding supports the research hypothesis and is supported by findings from studies by Herlambang et al. (2018) and Dimitropoulos et al. (2014). Dimitropoulos et al. (2014) explain that institutional investors prefer debt issuance over equity because debt issuance will not reduce the amount of control investors have over the company. Additionally, institutional investors, according to Bhojraj and Sengupta (2003) and Mande et al. (2012), can enhance the effectiveness of corporate governance by reducing agency issues through the oversight that is carried out (Dimitropoulos, 2014). Herlambang et al. (2018) also explain that supervision carried out by institutional investors can increase public trust and other creditors in the company, making it easier for companies to get loans.

The firm size variable has a significant negative effect on capital structure, or, in other words, the larger the company, the lower the level of debt usage in the company. This finding is similar to the results of research by Sheikh (2019), Kumalasari et al. (2019), and Wahab and Ramli (2014). Company size significantly affects the availability of funds from various sources (Wahab & Ramli, 2014). The larger the company, the more alternative funding sources can be selected, and the greater the company's flexibility in designing its capital structure (Wahab & Ramli, 2014). This condition allows the company to reduce its dependence on debt funding, which can cause a financial burden. Not only that, large companies tend to have less debt because they already have stable cash flow and sufficient internal funding to fund planned investment projects. Large companies usually keep most of the revenue earned as retained earnings, so to fund investment projects, the company will use internal funds first (Sheikh, 2019). This result aligns with the pecking order theory, which states that companies have specific preferences in finding funding sources, starting with retained earnings, debt, and equity as the last choices.

Liquidity variables have a negative and insignificant effect on capital structure, or, in other words, high and low liquidity do not affect the company's debt use level. This finding is similar to the research results by Corina, et al. (2017) and Marlina et al., (2020). In signaling theory, which states that the use of debt is not influenced by the level of liquidity but is intended to signal to investors that managers are optimistic about the company's ability to generate cash flow to fulfill obligations arising from the use of debt, In addition, this insignificant negative effect also occurs because, when lending, creditors usually consider the five C's of credit, consisting of character (company reputation and credibility), capacity (company's ability to fulfill payment obligations), capital (company capital structure), collateral (availability of assets as collateral), and conditions (micro and macroeconomic conditions) (Corina et al., 2017). In this case, liquidity, included in the capacity component, is not the only thing creditors consider. The reason is that a less liquid company with high credibility and a lot of fixed assets can get a large loan because it fulfills the character criteria and can use its fixed assets as collateral. Conversely, liquid companies with few fixed assets or poor credibility may need help obtaining loans. This result is also to the statement of Marlina et al., (2020), which explains that liquidity does not influence capital structure because the liquidity ratio only takes into account the current assets owned by the company, whereas what is closely related to the capital structure is fixed assets that can be used as collateral when applying for a loan.

The profitability variable has a significant negative effect on capital structure, or, in other words, the higher the profitability, the lower the level of debt use in the company. This finding is supported by the results of research by Detthamrong et al. (2017), Herlambang et al. (2018), Siromi and Chandrapala (2017), Sheikh (2019), Kumalasari et al. (2019), Dimitropoulos (2014), and Sewpersadh (2019). Companies with high profits tend to use retained earnings as a source of funding (Dimitropoulos, 2014; Sheikh & Wang, 2012). If internal funding is sufficient to meet the

company's needs, the company does not need external funding (Herlambang et al., 2018). Companies with a high level of profitability can hold the profits earned as retained earnings so that when they want to fund investment projects, they can use retained earnings first. This result is to the pecking order theory, which states that companies have priorities in choosing funding sources, starting with internal funding in the form of retained earnings, then external funding in the form of debt, and equity as the last choice.

The company growth variable has a significant adverse effect on the capital structure. This finding is similar to the research results by Dwidjaja, et al., (2017). A high growth rate indicates that the company is approaching the mature stage, and afterward, it will enter the decline stage (Dwidjaja et al., 2017). This condition makes the company's future uncertain, so companies tend to be reluctant to use debt funding. The same thing was also conveyed by Murhadi (2011), who explained that companies with high growth rates tend to reduce fixed-cost funding, such as debt, to reduce risks due to uncertainty of future income. In addition to facing revenue uncertainty, growing companies are also often faced with the choice of investment projects that could be more risky. To fund such investments, managers tend to refrain from using debt because the strict supervision of debt will limit the manager's opportunity to implement strategic decisions (Dimitropoulos, 2014). This condition happens because debtors tend to be risk-averse and do not want debtors to invest in high-risk investments because the return earned by debtors will not increase with this risky investment (Li et al., 2020).

CONCLUSION

This investigation demonstrates that the capital structure is notably negatively impacted by two independent variables: board size and ownership concentration. In comparison, four other independent variables, independent commissioners, audit reputation, managerial ownership, and institutional ownership, significantly positively affect capital structure. Furthermore, three control variables, namely company size, profitability, and growth, significantly negatively affect capital structure. Liquidity, a different control variable, has a negligible adverse impact on capital structure. This result demonstrates how capital structure is influenced by corporate governance. The existence of this research is expected to be a reference for investors when they want to invest in companies, especially non-financial sector companies listed on the IDX, and become one of the considerations for companies to determine the composition of debt and equity in the capital structure in order to create an optimal capital structure that can maximize company value.

Additionally, it is anticipated that this study will expand our understanding of how corporate governance affects capital structure and serve as a reference for future studies on related subjects. The observations used in this study are restricted to all non-financial sector businesses registered on the Indonesia Stock Exchange; therefore, there are still some restrictions. Therefore, future researchers anticipate lengthening the observation period and broadening the range of research objectives. As a result of the epidemic that has affected Indonesia since 2020, additional researchers should be able to compare the study periods before and after the pandemic to see how changes in economic conditions impact corporate governance when selecting capital structure.

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