International Research of Economic and Management Education
Volume 1, Issue 1, January 2021
https://stebilampung.ac.id/journal/index.php/ireme

The Influence of Corporate Governance on Companies Profitability with Capital Structure as Intervening

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Info Articles

History Article:
Received: 7 September 2020
Accepted: 30 October 2020
Published: 25 January 2021

Keywords :
Board Size;
Audit Committee;
Reputation Audit;
Ownership Concentration;
Capital Structure.

Abstract

The study's goal is to examine if the structure, process, or principle has a role in corporate governance in terms of increasing profitability. This research use quantitative methodologies in conjunction with descriptive data analysis. Non-random sampling was used to determine the research sample. The study included a total population of 469 firms, with 18 organizations being sampled each year in line with the study. Secondary data on ROA, *corporate capital structure, board size, board independence, and audit committee*, as well as company financial reports (annual reports) in the form of *audit repute* and *ownership concentration*, was accessible through Bloomberg. The first equation is the relationship between capital structure and company profitability, and it is concluded that there is no relationship between board size and ownership concentration on the capital structure of the company, but an independent board, audit committee, and reputation audit show the opposite results. The second equation investigates the relationship between corporate governance and capital structure and profitability, concluding that there is a link between board independence, audit reputation, ownership concentration, and capital structure and company profitability, but no link between board size and audit committee. According to the results of the mediation test (using the Sobel test), the capital structure acts as an intermediary variable between board independence and audit committee on profitability, but it has no influence on board size, audit committee, or ownership concentration on profitability.

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p-ISSN 2721-7973
e-ISSN

INTRODUCTION

The pure definition of interpreting a company is a structure established by law that allows various parties to contribute capital, expertise, and energy to achieve benefits the maximum of the whole. The company is formed with the aim of creating value for all interested parties, not only as a profit printing machine for the owner. One of the guiding criteria for an organization's efficacy and efficiency in achieving its goals is performance. The degree of profitability generated by the firm is a result of its performance. The operations of management determine the company's performance.

The financial reports of a firm are a representation of its success. In order to evaluate performance, it is critical to identify the foundation of excellent performance using performance indicators. The organization need measurable, relevant, and critical performance metrics. Profitability ratios can be used to evaluate the performance of a business. Profitability is a metric for determining how profitable a company is. Profitable businesses tend to have greater retained earnings and less debt (Chotigeat, 2004).

Profitability is useful to assess the survival of a company for the long term because profitability describes the state of the company whether the company has good prospects in the future so that the company will endeavor to increase its profitability. This is due to the fact that the higher the company's profitability, the more likely it is to remain in business. Profitable businesses are more likely to function better and more efficiently (Margaritis & Psillaki, 2010).

Corporate governance is defined by Claessens & Yurtoglu (2013) as a set of processes established and implemented to regulate management choices and actions that might increase firm performance, market value, and capital resources. As a result of taking over internally and boosting the cash flow that is intended to be paid to investors, corporate governance can effect value (Black & Kim, 2006).

Existing devices on governance *(governance)*of an organization as an open system consisting of structures, mechanisms and principles that will be the unity of the three so-called system of governance. Corporate governance according to *the Corporate Governance on Indonesia Forum* (FCGI) is a collection of components that control the rights and duties of shareholders, management, creditors, the government, workers, and other internal and external parties. The aim of good corporate governance is to control the conduct of managers, therefore reducing the difficulties that develop as a result of inequity in the distribution of the company's revenues. The presence of an agency theory, in which management is independent from ownership, gives birth to this corporate governance. Effective governance is founded on agency theory, which states that the directors' primary role is to monitor and protect shareholders against conflicts of interest that may occur as a result of ownership and control separation (Jensen & Meckling, 1976). The existence of differences in objectives between managers and shareholders refers to *agency costs*, *agency costs* can be precarious in conditions of poor company performance (Bebchuk, 2003). *Agency costs* can decrease with effective monitoring, this will improve company performance.

According to Shukeri, Shin, and Shaari (2012), the size of the board of directors has a negative link with firm performance since it might make the company less efficient by raising wages and agency expenses. Internal corporate governance impacts the success of enterprises in Pakistan, according to Sheikh et al., (2013). The research focuses on non-financial firms that were registered with the Karachi Stock Exchange between 2004 and 2008.

As a conclusion, board size and business ROA, as well as ownership concentration, have a significant positive relationship. Ehikioya (2009) investigated the impact of corporate governance frameworks on business performance in Nigeria. According to this study, 107 firms were listed on the Nigerian Stock Exchange between 1998 and 2002. The findings reveal a positive and substantial association between board size and firm ROA as well as ownership concentration. According to Ahmadpour, Samimi, and Golmohammadi (2012); Gill, Biger, Mand, & Shah (2012); Kajananthan & Lanka (2012); Sheikh & Wang (2012), board size and leverage have a positive and substantial association (2012). Board size and leverage have a negative and substantial link, according to Bulathsinhalage & Pathirawasam (2017) and Shukeri et al., (2012).

Boateng et al. (2017) investigate the internal impacts of corporate governance

measures on capital structure decision-making. Between 1998 and 2012, there were 2,386 businesses registered with the Chinese Stock Market Research (CSMAR). Conclusion: There is a strong positive association between board and capital structure irrespective of ownership concentration, and a significant negative relationship between ownership concentration and capital structure. According to Kajananthan & Lanka (2012), corporate governance has a 34 percent effect on the capital structure of manufacturing enterprises established in Sri Lanka. The capital structure of the organization has a major beneficial association with the committee board.

According to Christensen, Kent, and Stewart (2010), independent boards, particularly outside independent directors, have a negative relationship with ROA and TobinsQ. Corporate governance concerns such as board size, outside directors, CEO duality, management ownership, and ownership concentration were explored by Sheikh, Wang, and Khan (2013). Outside directors and managerial ownership, on the other hand, have a negative influence on ROA, EPS, and market-to-book (MB), according to the data. The capital structure that the company establishes has an influence on the amount of profit it generates. Debt may affect a company's value and performance in a variety of ways. Increasing capital structure leverage can assist to reduce shareholder-management agency conflicts. A company's capital structure refers to how it raises funds for assets by employing a combination of stock and debt (Brounen, Jong, & Koedijk, 2006).

Capital structure is assessed by total debt to total assets, short-term debt to total assets, and long-term debt to total assets, according to Gill, et al (2011), and there is a positive and significant relationship between capital structure and business performance. Margaritis and Psillaki (2010) investigated the relationship between capital structure and company performance in manufacturing enterprises in France.

The result is that there is a positive and substantial association between leverage and corporate success, as evaluated by Xinefficiency; however, the outcomes differ by industry and may be favorable or unfavorable. Le & Phan (2017) revealed a negative and substantial link between capital structure and firm performance in their various investigations. Long-term debt, short-term debt, and total debt in both book and market value, as well as ROA, ROE, and Tobin's Q, are all capital structure ratios to consider. Varun (2014) claims that for Indian businesses, there is a negative association between capital structure and company success as assessed by ROA and ROE. According to Zeitun & Tian, business performance as measured by ROA and capital structure as measured by short-term debt to total assets have a negative and significant relationship (2007). Debt, according to Abor, has a negative and significant relationship with profitability (2005).

LITERATURE REVIEW

Corporate Governance

Corporate governance is a method for competently running a business based on the concepts of openness, accountability, responsibility, independence, justice, and equality (Effendi, 2016). Clean, transparent, and professional work practices can be encouraged through corporate governance. Corporate governance may be defined as a system that leads and governs a business (Hamdani, 2016). Corporate governance, according to the Turnbull Report, is a mechanism used by firms to reduce the incidence of significant risks in order to fulfill their business objectives by preserving assets and creating long-term investment value for shareholders. The Indonesian Forum on Corporate Governance (FCGI) defines Management, owners, creditors, the government, workers, and internal and external groups of businesses with rights and obligations to the organization are all governed by corporate governance principles.

Capital Structure

The capital structure of a company is the result of its funding decisions. Debt and equity are two common sources of company finance. There are many different types of debt, equity, and debt between the two (Baker & S., 2011). Decisions taken by a company's financial manager to determine the capital structure involve the overall cost of capital and ultimately formed market value (Sharma, 2015). Capital structure describes the proposition of debt for investment, so that by knowing the capital structure of the company investors can know the equality between the risks to be faced and the rate of return that will be received.

Profitability

For any company's successful management, performance measurement is critical (Demirbag, 2006). The financial accounts published by the corporation reveal the company's performance. One way to measure company performance is to use profitability. Profitability describes the percentage or size that is in the company that is useful for assessing the extent to which profits are earned or received in a given period. Companies that are *profitable* (profitable) tend to have higher value (Chen et al. 2010).

Basis of Theory & Hypotheses

Agency Theory

An analytical framework for *Agency Theories* developed in the 1970s was written by Jensen & Meckling (1976). Agency theory is built as an attempt to interpret and solve problems that are likely to arise because of incomplete information when a contract is carried out between the principal (shareholder or company leader) and the agent (management or subordinate). Agency theory has confidence if the agent has more information than the principal, this will make the agent take actions that benefit him and harm the principal, or the *principal-agent problem*. The burden arising from management's actions will lead to an *agency cost.*

The Trade-off Theory

According to this idea, the firm will assess how much debt finance it requires by weighing the advantages and drawbacks of using debt as a fraction of capital structure. Tax benefits, which are the consequence of debt and liquidity expenses, are usually balanced by companies. A corporation can build up debt to the point that bank fees start to rise and the cost of acquiring cash becomes prohibitively expensive, preventing the company from falling into debt (Gomez et al. 2014). Where the advantage of the loan to be obtained outweighs the danger, the corporation will tend to continue to make debt.

***Board Size* & Capital Structure**

One of the parts of corporate governance that plays a critical role in successfully and properly overseeing the company's activities is the board of directors. The board of directors is crucial in minimizing the chances of a company's failure (Chancharat & Tian, 2012). The board of directors' role is to monitor the company's operations and approve strategic decisions.

There are no precise guidelines for determining the size of a board of directors. According to Uchida (2011), corporate characteristics, monitoring expenses, and the firm's complexity may be utilized as a reference to determine the board's optimization.

(H1) Board Size has a positive and significant influence on the capital structure

***Independent Board* & Capital Structure**

The existence of independent directors, according to agency theory, improves managerial oversight. Independent directors' efficacy in overseeing managerial actions involving corporations involves funding choices (Feinerman, 2007). When independent directors are elevated by a higher board of directors, senior managers are constantly supervised, so they use less leverage to avoid taking on too much risk and to keep debt in check (Boateng et al., 2017).

(H2) Board Independent has a negative and significant influence on the capital structure of the

***Audit Committee* & Capital Structure**

Audited financial statements, according to P. F. Chen, He, Ma, and Chen (2016), provide additional vital information regarding the company's credit risk to capital sources. This information will result in a more demanding credit approval, which will influence the decision to get financing.

Because it possesses better and more trustworthy information in the market, the audit committee has the ability to build leverage (such as creditors and investors).

(H3) Audit Committee has a positive and significant influence on capital structure

***Audit Reputation* & Capital Structure**

Financial reports provide information for market participants (eg shareholders and potential shareholders) through information, questions will arise about the quality and accuracy of information presented in financial statements. . Audit reputation has an important role in reducing the risk of information received by investors, this will reduce the company's capital costs (Azizkhani, Monroe, & Shailer, 2010). If a firm uses or is seen to employ high-quality financial reports that are reviewed by reputable auditors, it will gain credibility and

enhance possibilities to access external sources of finance, allowing the company to leverage itself further.

(H4) Reputation Audit has a negative and significant influence on the capital structure of

***Ownership Concentration* & Capital Structure**

Concentration of ownership has a real impact on corporate finance decision making (Jensen & Meckling, 1976), this is because ownership concentration leads to efficient company monitoring. Large shareholders will benefit from higher concentrations of ownership because they will have more motivation to oversee management and will be able to do it at a cheaper cost (Boateng et al., 2017). According to agency theory, more concentrated ownership of the organization will result in more effective oversight. Conflicts of interest between managers and owners will be reduced when ownership concentration increases (Suto, 2003). Because it has ramifications for agency relationships inside the organization, a corporation's ownership structure can impact its capital structure (Claessens, 2003). When compared to firms with less concentrations of ownership, companies with larger concentrations of ownership have stronger leverage (Phuong et al., 2017).

(H5) Ownership Concentration has a positive and significant influence on the capital structure

***Board Size* & Profitability**

The director's capacity to monitor and regulate managers is influenced by the size of the board (Anderson, Mansi, & Reeb, 2004). When compared to a lesser number of directors, a higher number of directors is more likely to give better access to numerous resources. With their expertise and knowledge, the board of directors is more likely to have a more deliberate learning and decision-making process, resulting in improved corporate performance. The size of the board of directors should be determined by the company's characteristics, finances, and level of complexity (Uchida, 2011).

(H6) *Board Size has a positive and significant influence on the profitability of the*

***Independent Board* & Profitability**

The number of independent directors on the board of directors adds to the company's success by policing and regulating management' profit-seeking activities (Yurto, 2003). In addition, independent directors guarantee that the company's operations and other external stakeholders operate smoothly (H. Khan, 2010). The number of independent directors in crucial positions helps to prevent conflicts of interest among shareholders (Andres & Vallelado, 2008). As a result, board independence helps to improve corporate performance (Said, Zainuddin, & Haron, 2009).

(H7) Board Independent has a positive and significant influence on the profitability of the

***Audit Committee* & Profitability**

The audit committee's job in the firm is to give extra fraud protection and to guarantee that the company adheres to the relevant best practice standards. The strengthened audit committee mitigates information asymmetry and can improve management oversight (Aldamen, Duncan, Kelly, Mcnamara, & Nagel, 2012). The primary audit committee's job is to manage the company's financial reporting process, and the audit committee's function is to guarantee that the financial statements are of high quality.

(H8) Audit Committee has a positive and significant influence on profitability

***Audit Reputation* & Profitability**

Companies that hire well-known auditors are more likely to lessen information asymmetry and boost financial market signals about their prospects. According to Defond & Lennox (2011), a research done to introduce Sarbanes-Oxley in 2002 found that many small auditors or auditors with less than 100 customers dropped out of the industry, suggesting that the small auditor may have lost the reputation of a major auditor. The decision-making process is projected to improve as audit quality improves (eg investment and operating decisions).

(H9) Reputation Audit has a positive and significant influence on profitability

***Ownership Concentration* & Profitability**

Concentration of ownership may increase firm performance and lower costs by reducing conflicts of interest; it's a good way to safeguard small investors (Vu, Tu, & Tuyen, 2018). Separation of ownership and control allows managers to make decisions that benefit them, even if they are detrimental to the company's performance. The more harmonious interests that manjaerial share ownership affects, the better the firm performs. Controlling shareholders have a strong motivation to keep an eye on management and increase the company's

worth.

(H10) Ownership Concentration has a positive and significant influence on profitability

Capital Structure & Profitability

The capital structure of a company may have a significant influence on its governance (Modigliani & Miller, 1958). Higher financial leverage or a lower equity capital ratio, according to Berger & Bonaccorsi in Patti (2006), can contribute to improved corporate performance. Because greater debt levels raise the likelihood of bankruptcy (Campbell & M, 2008), leverage has a detrimental impact on corporate performance. Vithessonthi & Tongurai (2015) say the same thing, stating that financial suffering is larger than the benefits of funding.

(H11) Capital structure has a negative and significant influence on profitability of

Capital Structure Mediating the Relationship between *Corporate Governance* & Profitability

Corporate governance has a direct impact on profitability, but it can also have an indirect impact through the capital structure. The following are some of the reasons why capital structure can have an indirect impact on corporate governance and profitability: first, inadequate capital structure can lead to excessively high or low firm performance. Companies with a high level of leverage will see huge changes in performance, whereas companies with a low level of leverage will experience minimal variations. This will have an impact on the company's success. Second, the board of directors' involvement in reviewing and authorizing investments in the firm; the impact of corporate governance on company performance is likely to be dependent on the board of directors' capacity to identify value-creating investments and decide on corporate finance. Governance Under/over leverage has a tendency to influence investment choices and company success in the future (Phuong et al., 2017).

(H12) Capital structure mediates the relationship between board size to company profitability

(H13) Capital structure mediates the relationship between independent board to company profitability

(H14) Capital structure mediates the relationship between audit committee to company profitability

(H15) Capital structure mediates the relationship between audit reputation towards company profitability

(H16) Capital structure mediates the relationship between ownership concentration on company profitability

METHODOLOGY

Non-financial companies that are consistently listed on the Indonesia Stock Exchange (IDX) for the 2011-2016 period are the objects of this study. The non-financial companies in this study amounted to 126 company. Samples that meet the criteria are 18 companies.

Variable Measurement

Profitability is the dependent variable in this study, and profitability is quantified by return on assets (ROA). The return on assets (ROA) is a metric for determining how profitable a company's operations are. The return on assets (ROA) may be computed by comparing net income to total assets (Jaradat, 2015). Corporate governance is the study's independent variable. Because corporate governance cannot be assessed directly, numerous metrics, such as board size, board independence, audit committee, audit reputation, and ownership concentration, can be used to assess it.

The capital structure was chosen as an intermediate variable because it has a function, with the directors as decision makers of corporate finance being one of them for investment. With the correct investment selection, the company's profitability is predicted to rise. In this study, the capital structure is defined as the ratio of total debt to total assets (Ahmed Haji, 2014). Table 1 summarizes the results of the variable measurements.

Empirical Model

Analysis data in this study uses regression with the method *ordinary least square*. Regression analysis was chosen related to the purpose of the study, namely to estimate the variability of the dependent variable by referring to the variability of the independent variable. Assumption the level of significance used in this study is five percent. Thus, the research regression model is as follows:

$$Y = \beta_0 + \beta_1 BS + \beta_2 BI + \beta_3 ACS + \beta_4 AR + \beta_5 OC + \varepsilon$$

$$Y = \beta_0 + \beta_6 BS + \beta_7 BI + \beta_8 ACS + \beta_9 AR + \beta_{10} OC + \beta_{11} lev + \varepsilon$$

Table 1:
Operational Definition & Variable Measurement

Variable	Definition	Formula	Scale
Profitability	Company ability to create profits	Net Profit / Total Assets	Ratio
Board Size	A person chosen to lead the company	All Board of Directors	Ratio
Independent Board	affiliated	Independent Directors / Total Directors	Ratio
Audit Committee	Supervise audit functions and financial report audits	All Audit Committees Audit	Ratio
Reputation	Public trust about the value and quality of companies	KPMG, PWC, EY, and Deloitte= 1; 0 = other	Dummy
Ownership Concentration	Share ownership	Top three shareholders	Ratio
Capital Structure	Source of funds chosen to finance business activities	Total Debt / Total Asset	Ratios

Empirical Results & Discussion
The estimation results of the research regression model are presented in the following table:

Table 2:
Final Research Regression Model Both equation

Variabel Penelitian	Koefisien Regresi	t-Statistic	Prob
Board Size	-0.32	-0.69	0.4892
Board Independent	-0.14	-2.76	0.0067
Audit Committee	3.15	3.07	0.0026
Audit Reputation	-22.92	-4.50	0.0000
Ownership Concentration	4.02	0.52	0.6005
Konstanta	35.09	5.46	0.0000

Source: Data processed writer with Eviews 10 (2018)
Remarks: significance on the assumption of 5% significance level

Table 3:
Final Research Regression Model Second Equation

Variabel Penelitian	Koefisien Regresi	t-Statistic	Prob
Board Size	-0.25	-1.09	0.1788
Board Independent	0.35	6.41	0.0000
Audit Committee	1.26	1.52	0.1317
Audit Reputation	6.34	5.25	0.0000
Ownership Concentration	18.56	4.11	0.0001
Struktur Modal	-0.25	-5.85	0.0000
Konstanta			

Source: Data processed by authors with EViews 10 (2018)
Remarks: significance on the assumption of a significance level of 5%

DISCUSSION

Corporate Governance and Capital Structure

Board Size and Capital Structure

Table 3 presents a summary hypothesis test, where the first hypothesis is rejected, because the regression test results state that there is no relationship between the *board size* and the capital structure. The role of directors is to monitor the activities carried out by the company and give approval to the company's strategic decisions. While there are no suitable laws regulating the size of the board of directors that is appropriate, the number of

members of the board of directors must be adjusted to the complexity of the firm while taking into account the efficacy in decision-making.

The number of directors that is right for a company depends on the effectiveness of the company in reaching its decision, so the number of directors does not become a benchmark for the company to produce decisions for corporate funding. The company does not easily make debt to external parties if the company's funding is still fulfilling for its operations. This is in accordance with the trade-off theory where companies have a sequence of funding to use.

Independent Board **and Capital Structure**

Table 3 presents a summary of hypothesis testing, where the second hypothesis is accepted, this is because the results of the regression test prove that there is a significant negative relationship between *board independent* and the capital structure. *Independent* boards or unaffiliated directors do not have a relationship with shareholders, so independent directors fight for the rights of shareholders with professionals. The role of independent directors has an influence on companies to reduce their use of debt, because independent directors argue that there are other sources of funding before the company makes a debt, that is by using the company's retained earnings so that the company can reduce debt to external parties. This is in accordance with the trade-off theory, where debt can increase the risk of financial difficulties, this triggers the potential for companies to over-finance debt.

Audit Committee **and Capital Structure**

Table 3 presents a summary of hypothesis testing, where the third hypothesis is accepted, this is because the regression test results prove that there is a significant positive relationship between *board independent* and the capital structure. Audited financial statements provide additional important information relating to corporate credit risk to providers of capital (PF Chen, He, Ma, & Chen, 2016). The ease of obtaining trust from capital providers resulted in the company getting additional operational funds or additional corporate debt. The company will first consider before making a debt, namely by considering the benefits and risks faced by the company. If the company will get more benefits from debt than its loss, the company will make a debt, this is in accordance with the *trade-off theory.*

Ownership Concentration **and Capital Structure**

Table 3 summarizes the hypothesis test, where the fifth hypothesis is rejected, because the regression test results state that there is no relationship between *ownership concentration* and capital structure. Shareholders with large percentages have more rights, namely to cast their votes in company decision making. But the decision making of the funding company does not only involve the largest shareholders, there are also internal parties involved. Corporate funding decisions have been prepared in the long term so that decision making cannot be justified unilaterally. The company will certainly take into account whether it will experience gains or losses on debt, if the debt will cause losses to the company, the company will delay making debt to external parties, this is in accordance with the *trade-off theory.*

Corporate Governance **and Profitability**

Board Size **and Profitability**

Table 3 presents a summary of hypothesis testing, where the sixth hypothesis is declared rejected, because the regression test results state there is no relationship between *board size* and profitability. The Board of Directors is in charge of managing the company. There are no binding and clear rules regarding the number of directors that are high for a company. The effectiveness of the number of directors in making decisions depends on the complexity of the company. So that the achievement of profitability (the company's ability to earn profits) in the company cannot be determined through the number of directors owned by the company. The Board of Directors (agent) has entered into an agreement or work contract with the owner of the company (principal), so the directors must run the company in accordance with the agreed agreement. The Board of Directors has the right to give approval including the target of the company to achieve maximum profit, but if the journey is not achieved, an evaluation can be carried out where the error is, because there are still other factors beyond the decision of the board of directors.

Independent Board **and Profitability**

Table 3 presents a summary of hypothesis testing, where the seventh hypothesis is accepted, this is because the regression test

results prove that there is a significant positive relationship between *board independent* and profitability. Conflict among shareholders arises because of the incompleteness of information held by shareholders. The emergence of this conflict will lead the company to issue agency costs. The role of independent directors in companies is to reduce conflicts of interest among shareholders. So that the role of independent directors is not only to alleviate conflicts between shareholders but also can improve company performance. Has a significant role so that, for companies that have *gone public, they* must have independent directors.

***Audit Committee* and Profitability**

Table 3 presents a summary of hypothesis testing, where the eighth hypothesis is rejected, because the regression test results state that there is no relationship between *audit committee* and profitability. The task of the main audit committee is to oversee the company's financial reporting process, and the audit committee's role is to ensure the quality of the company's financial statements. There are no clear and binding rules regarding the number of audit committees that must be held in a company. The company's financial reporting can still be done because the audit is carried out without taking into account the number of auditors, but in accordance with the complexity experienced by the company to achieve effective decisions. The enhanced audit committee is considered capable of reducing the problem of information asymmetry and can improve management monitoring (Aldamen, Duncan, Kelly, Mcnamara, & Nagel, 2012). Where this is in accordance with agency theory, where the role of the agent is to reduce the information asymmetry between the *principal* and the agent.

***Reputation Audit* and Profitability**

Table 3 presents a summary of hypothesis testing, where the ninth hypothesis is accepted, this is because the regression test results prove that there is a significant positive relationship between *audit reputation* and profitability. Famous auditors have a considerable role in the eyes of investors, because investor trust can be formed from company audits. Companies that use the services of well-known auditors are likely to be able to reduce information asymmetry, because the absence of missed information to be presented will increase the signal to the market regarding the company's prospects. Increasing investor interest in the company will indirectly increase the profitability of the company. Information disclosure presented proves agency theory.

***Ownership Concentration* and Profitability**

Table 3 presents a summary of hypothesis testing, where the tenth hypothesis is accepted, this is because the regression test results prove that there is a significant positive relationship between *ownership concentration* and profitability. The results of the study indicate that the company's profitability will increase along with the amount of ownership in the company. Jensen & Meckling (1976), states that an increase in the share of equity held by managers can reduce losses by harmonizing the interests of managers who tend to use company resources for their personal interests. The positive relationship between ownership concentration and performance shows that top-3 *shareholders* are effective monitoring and have more ability than other shareholders to force management to make decisions in actions that can improve company performance.

Capital Structure and Profitability

Table 3 presents a summary of hypothesis testing, where the eleventh hypothesis is accepted, this is because the regression test results prove that there is a significant negative relationship between capital structure and profitability. Decreasing leverage will increase company profits because companies that reduce debt can meet the profits targeted by the company. Company profits generated by reducing debt, reflect that the company does not have to add debt to make a profit. The results of the study prove that low corporate leverage will increase the company's ROA or increase company profitability.

The trade-off theory states that companies try to equalize the profits of taxes generated from debt and liquidity costs. Companies tend to collect their debts at a certain point, where bank fees start to rise and the cost of obtaining funds increases, this condition will cause the company to stop debt. This is in line with the results of research which states that low leverage will increase the profitability of the company. This study provides results that are in line with the research conducted by Abor, (2005); Le & Phan, (2017); Varun, (2014); Zeitun & Tian, (2007).

Mediation

The mediation test results conclude that capital structure does not have a mediating role between relationships *board size* with company profitability. Capital structure has a mediating role between relationships *board size* with company profitability. capital structure does not have a mediating role betweenrelationships *audit committee* with company profitability. capital structure has a mediating role betweenrelationships *reputation audit* with company profitability. capital structure does not have a mediating role betweenrelationships *ownership concentration* with company profitability. These things are in line with the results of research conducted by Phuong et al., 2017).

CONCLUSION

This study focuses on the relationship of corporate governance to profitability by using leverage as a mediation between the relations between the two. In addition to dealing directly with profitability, corporate governance also indirectly has a relationship with profitability through leverage. The study was conducted on 18 companies that were consistently listed on the Indonesia Stock Exchange in the period 2011 to 2017. Based on the results of hypothesis testing, discussion, and the results of the double test, it was concluded that the capital structure did not mediate the relationship between *ownership concentration* towards company ROA. The conclusion means that the three largest shareholdings in the company do not have a better role to increase company profits, including through ways to reduce debt to increase company profits.

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