

ABSTRACT

Corporate governance, which consists of five aspects: audit committee, independent commissioners, board of directors, managerial ownership, and institutional ownership, is an important mechanism that must be implemented properly by companies seeking future growth and development, as it significantly influences company policies related to capital structure (leverage) and funding structure, both internal (retained earnings) and external (debt and equity). However, relevant previous research on the effect of corporate governance on leverage remains highly diverse and inconsistent. Furthermore, there has been limited research on previous literature that considers internal financing as a moderating variable. Therefore, this study aims to analyze the effect of corporate governance on leverage with internal financing as a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2024 period.

This study used a sample of 84 out of 344 manufacturing companies in Indonesia selected using a purposive sampling method. Thus, 420 observations were obtained. Corporate governance, such as the audit committee, independent commissioners, and board of directors, was measured using the total number of each member. Meanwhile, managerial ownership and institutional ownership were measured by dividing the total number of each member by the total number of outstanding shares. Furthermore, leverage was measured using the debt to assets ratio (DAR), and internal financing was measured using retained earnings. The analysis used panel data regression and moderated regression analysis (MRA) for the moderation model with a robust standard error approach using the white cross-section method.

The results of the study indicate that corporate governance variables collectively influence leverage. Furthermore, in the t-test, the audit committee, managerial ownership, and institutional ownership have a significant negative effect after the internal financing variable is included. In the MRA model, the audit committee variable had a significant positive effect on leverage, and internal financing moderated the relationship between the two. The board of commissioner variable also had a significant negative effect on leverage, and internal financing also moderated the relationship between the two. These findings indicate that not all corporate governance variables directly influence leverage; other factors, such as internal financing, should also be considered.

Keywords: Corporate Governance; Leverage; Internal Financing