ABSTRACT

The purpose of this study is to examine the influence of corporate governance quality on capital structure of a firm. Governance score and CGPI score are used to measure corporate governance quality, while market leverage and book leverage are used to measure capital structure. Total assets, EBIT ratio, Tobin's q, fixed asset ratio, non-debt tax shield, credit rating, dividend ratio, industry dummies, and year dummies are used as control variables.

The population in this study consists of all listed non-financial firms in Indonesia Stock Exchange in year 2007, 2008, and 2010. The sampling method used in this study is purposive sampling. By doing sampling and processing data, the final amounts of the sample are 60 firms. This study uses linear regression as an analysis technique to examine the hypotheses.

The empirical evidence shows that both governance score and CGPI score have significant positive influence on market leverage and book leverage. It means that corporate governance quality has significant positive influence on firm's capital structure. Firms with good governance are significantly more leveraged.

Keyword: *corporate governance quality, capital structure, CGPI, leverage*