

Role of Dividend, Leverage and Corporate Governance for Firm Value and Size under Trade-off Theory

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This study aims to investigate the role of corporate governance and dividends in connection with company's capital structure through the lens of trade-off theory in 21 manufacturing companies in the Indonesian Stock Exchange from 2011 until 2015. To get a sense of the type of data pooled, the generalized structure component analysis (GSCA) analysis tool was used. The study found new assumptions to strengthen the entry into force of trade-off theory. It was discovered that when additional debt exceeded the threshold of tolerance, the value of a company no longer was determined by capital structure. Originality and value obtained was regarded as dividends and corporate governance in connection with a company's capital structure. The role of strong corporate governance was meaningful as it rested on the principle of benefit and cost, thereby strengthening relationships with company's capital structure. The strength of interaction with corporate governance and capital structure were also found to reinforce the value of the company. Additionally, it is found that factors like dividend payments and dividend yield significantly contribute towards the value and size of the selected firms. Meanwhile the role of leverage can also be assumed as a significant predictor of firm value. However, from the governance factors, only board size is significantly affects value and size factors.

Key words: *Capital Structure, Dividends, Corporate Governance, Firm Value.*

Background

Theoretically, there are two views of controversy in verifying the impact of capital structure on firm value. The first view was driven by Modigliani and Miller (1958), they provided that capital structure did not affect the value of the company. The second view, which was represented by pecking order theory and trade-off theory (Myers & Majluf, 1984; Myers, 1984), stated that capital structure affected the value of the company (Javeed & Azeem, 2014; Rocca, 2007). Several research contributions (Goldfarb, 2014; Mahrt-Smith, 2005) have tried to resolve this controversy by verifying either of the theories. This research considered dividend and corporate governance as variables in order to justify the role of dividends and related corporate governance with the company's capital structure through the lens of tradeoff theory (Myers and Majluf, 1984).

Results of research on the relationship with company's capital structure vary. For example, studies by (Bonaimé, Öztekin, & Warr, 2014; Edeme, & Nkalu, 2016; Muradoglu & Harvey, 1988) have found that strong capital structure made a significant effect on firm's value. Other studies (Sheikh & Wang, 2013, Hsiangtsai, Li-Jen, & Cang-Fu, 2015), found that weak capital structure had a significant effect on firm value. On the contrary, (Cheng, Liu, & Chien, 2010; Bastug, 2018) found that capital structure did not have a significant impact on company value. This study's objective is to fill the gaps with explanations and to serve as a differentiator amongst prior research.

In conducting the study, research was limited to putting dividend as a mediating variable. This was done as it was believed that dividends could play a role to mediate the effect of capital structure on firm value. That is, the stronger the capital structure and the higher a company's dividends the higher the value of the company. The results of a few other studies (Ramachandran & Packkirisamy, 2010; Tong, Green, Tong, & Green, 2005; Jen-Chang & Yeats, 2015) made a strong impact on capital structure and dividends. Furthermore, (Amidu, 2007; Tsuji, 2010; Baker & Powell, 2012; Baker & Kapoor, 2015; Wang & Lu, 2016) found a strong and significant dividend related to the value of the company.

Corporate governance was used as a moderating variable as it was believed that corporate governance can be a moderating influence of capital structure on firm value. The results of research (Dharmapala & Khanna, 2011; García-Meca & Sánchez-Ballesta, 2011; Leung and Cheng, 2013; Tian&Twite, 2011; Tsai & Tung, 2014; Ming-Feng & Shioh-Ying,2015; Kachouri, & Jarboui, 2017) found that corporate governance related to the value of the company. Furthermore, (Isshaq, Bokpin, & Onumah 2009) found that corporate governance had no meaningful relationship to the value of a company.

In the field of corporate finance, the literature work primarily focuses on two schools of thoughts, covering the idea of capital structure choices. The very first school of thought is covered under the title of trade off theory which identifies the various imperfections in a capital market which were ignored by (Modigliani & Miller, 1958). The key focus of this theory is on the symmetric information and efficiency of the market. It is suggested by (Modigliani & Miller, 1958) that a business firm can increase its value while focusing on capital structure through which it can obtain a tax shield on debt portions. However, it is also observed that higher debt can increase direct and indirect financial costs which can also decrease firm value. As per the trade-off assumption, an optimal financing mix should be up to the level where the cost of debt financing and its benefit are quite balanced over time.

The second school of thought explains the idea of leverage in the pecking order theory which indicates that business firms will prefer debt options on each other, while taking information asymmetry and signalling hypothesis into account. It is observed that through pecking order theory, businesses will give preference to those financing options which are easily available (Kodongo, Mokoaleli-Mokoteli, & Maina, 2015; Bendob et al, 2017).

The study seeks to fill the gaps on the explanation of the role corporate governance and dividends play in a company's capital structure and does so through the lens of the trade-off theory in consideration of manufacturing companies on the Indonesian Stock Exchange.

Methodology

This research sampled as many as 21 manufacturing companies listed on the Indonesian Stock exchange, this number was limited due to overall population as well as saturation of the sample. The data was pooled through a combined time series data and cross-section. The number of observations during the five-year period 2011-2015, deemed as number of units of analysis in this study, was 105. After the data was collected, editing was done to determine data errors, and to make it easier to enter data into tabulation sheets. After tabulating the data, a data analysis was performed. The data was transformed into natural logarithm (ln) in order to meet the classical assumptions. Subsequently, after transforming the data into natural logarithm, operational definitions of each variable were elaborated (Table1). Before the data was analysed, a classical assumption test was performed to determine the assumption of linearity. Lastly, an analysis of data via software was done to generalize component analysis (GSCA) (Hwang, 2009; Tenenhaus, 2008, quoted by Solimun, 2012).

Table 1: Operational definitions of variables

Variable	Proxy / Indicator	Variable type	Reference source
Firm value	Tobin's Q	Endogen	(Bonaimé et al., 2014)
Firm Value	EBIT, Size of the business	Endogen	(Bennett, Bettis, Gopalan, & Milbourn, 2017)
Capital structure	Debt to assets ratio (DAR)	Exogenous	(Sheikh & Wang, 2011)
Dividend	Dividend payout ratio (DPR)	Mediation & Exogenous	(Tsuji, 2010)
	Dividend Payments	Exogenous	(Grennan, 2018)
	Dividend Yield	Exogenous	(Harris, Hartzmark, & Solomon, 2015)
Corporate governance	((1) transparency of senate commissioner (2) transparency of Independent auditor	Moderation	(Dimitropoulos, 2014)
	Board Diversity (BDIVERSITY)	Exogenous	(Harjoto, Laksmana, & Lee, 2015)
	Board Size (BSIZE)	Exogenous	(Huang & Wang, 2015)
	Non-Executive Directors (NEXD)	Exogenous	(Dimopoulos & Wagner, 2016)

Results

Table 2: Descriptive statistics

Variables	No. of samples	Mean	SD	Minimum	Maximum
Capital structure	105	43.00	22.23	4.00	94.00
Dividend	105	21.17	21.19	0.00	87.46
Corporate governance	105	41.05	7.43	22.18	56.00
Firm value	105	1.69	1.22	0.28	5.71
Board Size	105	8.78	2.07	5	15
Board Diversity	105	.314	.593	0	3
Nonexecutive Directors	105	4.57	1.18	3	6

Table 2 shows that the capital structure of the manufacturing sector in Indonesia during 2011 to 2015 was still relatively mild with an average of 43.00%, the remaining 57.00% was internal financing (equity, retained earnings and free cash flow). The standard deviation was lower than the average. That is, the capital structure of manufacturing companies in Indonesia during 2011 to 2015 was relatively normal or stable. Dividends, during the same time period, were still relatively low with an average of 21.17%, the remaining 78.83% was corporate profit kept as retained earnings or used for productive investment activities. The standard deviation was higher than the average. That is, the dividend payment was relatively diverse. This caused some companies to not pay dividends consistently over the prescribed time period. Throughout certain periods, companies did not pay dividends due to consideration of productive investment activities.

Corporate governance was found to be relatively good from 2011 to 2015, with an average of 41.05%, the remaining 58.95% was an index of CEO ownership and institutional ownership. The standard deviation was lower than the average. Manufacturing companies applied the principles of corporate governance like transparency, accountability, responsibility, independence, and fairness proposed by Mitra & Hossain (2011) and Tuan (2012). The value of manufacturing companies was relatively high during the prescribed time period, and increased by an average of 1.69%. The standard deviation was lower than the average. This shows that the value of manufacturing companies was relatively high and this was reflected in their stock prices.

One of the key assumptions in the analysis of generalized structured component analysis (GSCA) is a linear relationship between variables in the structural model, usually called the assumption of linearity. Testing was done with the assumption of linearity method, Curve Fit was calculated with SPSS. The reference used was the principle of parsimony, i.e. the whole model was based on a significant or not significant test and therefore the model was said to be linear.

Table 3: The result of linearity assumption testing.

Variable relations		Test result	Conclusion
Capital structure →	Firm value	Significant linear model 0.008 < 0,05 (linear model)	Linear
Capital structure →	Dividend policy	Significant linear model 0.006 < 0,05 (linear model)	Linear
Dividend →	Firm value	Significant linear model 0.010 < 0,05 (linear model)	Linear

Corporate governance →	Firm value	Significant linear model $0.018 < 0,05$ (linear model)	Linear
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Table 3 shows that the relationship between variables was linear, so the assumption of linearity was met. The GSCA output resulted in evaluation of the goodness-of-fit model, the FIT obtained was 0.583. The diversity of variable capital structure, dividend, corporate governance and corporate value can be explained by the model amounting to 58.3%. The remaining 41.7% can be explained by other variables outside of the model. GFI data analysis results obtained the value of 0.644, the models created can be said to be appropriate or good. GSCA of output models, structural models, and hypothesis testing was done by looking at the path coefficient estimated value and the value of the critical point (CR *). It was found significant at a 95 percent confidence level, and the standard scale t value is 1.96.

Table 4: The Coefficient Analysis Results Line

Model	Variable relations	Coefficient line	CR (t test)	Description
With variable of mediation and moderation	Capital structure(X_1) →Dividend policy(Y_1)	0.136	2.67 *	Significant
	Capital structure (X_1) →Firm value(Y_2)	0.283	2.91*	Significant
	Dividend policy(Y_1) →Firm value (Y_2)	0.217	2.46*	Significant
	Corporate governance(M) →Firm value (Y_2)	0.971	2.83*	Significant
	Capital structure (X_1) *Corporate governance(M) →Firm value (Y_2)	1.888	1.97*	Significant
Without variable of mediation and moderation	Capital structure (X_1) →Firm value (Y_2)	0.658	1.26	Non-Significant

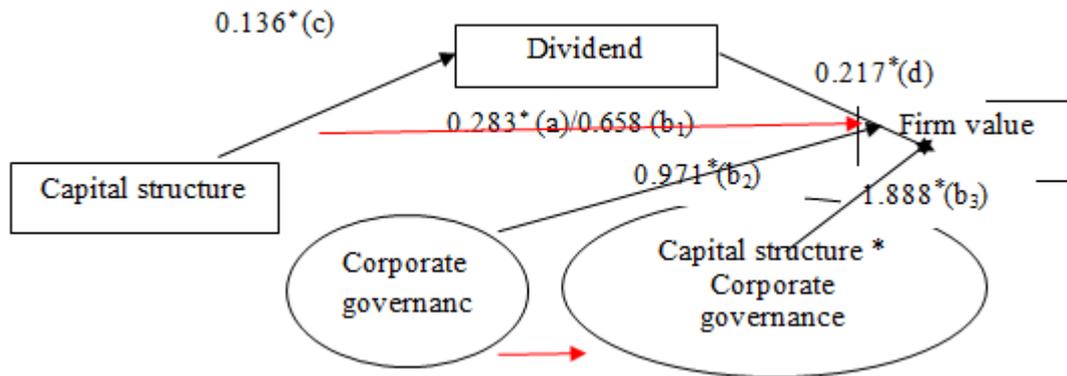


Figure 1 shows a relationship between capital structure, firm value, dividend policy, and governance of companies.

Description: CR (*) = .05 level of significant lines, the numbers behind / is a variable coefficient model line without mediation and moderation. Path = not significant.

Table 5: Robust Regression Findings for EBIT, Dividend, capital Structure and Corporate Governance

	(1)	(2)	(3)	(4)
VARIABLES	Model 1EBIT	Model 2EBIT	Model 3EBIT	Model EBIT
DPAYMENTS	4.02e-10** (4.82e-09)	-4.52e-09** (4.52e-09)	-7.63e-09** (3.93e-09)	
DIVIDENDYIELD	-0.588* (0.353)	-0.334** (0.335)	-0.464* (0.328)	
DIVIDENDPAYOUT	0.235 (0.740)	0.503 (0.671)	0.365 (0.678)	
LEVERAGE	2.423** (1.171)	2.404* (1.277)		2.624** (1.152)
Bsize	-0.114* (0.0590)			-0.106** (0.0532)
Bdiversity	0.104*** (0.182)			-0.0997 (0.176)
NEXD	0.00639 (0.0698)			-0.00478 (0.0675)
Constant	5.757*** (0.705)	4.682*** (0.199)	4.913*** (0.146)	5.660*** (0.572)

Observations	105	105	105	102
R-squared	0.91	0.83	0.67	0.72

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

To analyse the impact of dividend factors, leverage and corporate governance on firm's size, several equations have been developed and examined. Table 5 shows the findings under model 1 to 4 for EBIT; the first proxy to measure the firm size. Through robust regression analysis, Model 1 examines the impact of all the factors on firm size of the 21 manufacturing firms. The impact of dividend factors are examined through dividend payments, dividend yield and dividend payout ratio. Model 1 shows that dividend payments are a significant and positive influence on a firm's size, with the coefficient of 4.02e-10 and standard error of 4.82e-09 respectively. This indicates that dividend payments positively influence higher earnings.

The impact of dividend yield was found to be significantly negative through Model 1, which means that higher dividend yield negatively affects the size of the selected firms. The results for dividend payout ratio revealed an insignificant and positive impact for EBIT. Additionally, higher leverage in the firm will create a riskier atmosphere in the form of fixed payments, hence higher uncertainty and more earnings. For leverage, the Model 1 finding of 2.423 is supportive of the proposition that higher leverage in manufacturing firms can create more earnings and increasing size.

To measure the impact of corporate governance, three factors under the title of board size (BSIZE), board diversity (BDIVERSITY) and nonexecutive directors (NEXD) have been added to the model. It was found that board size is negatively affecting the size of the business (EBIT). Core to this finding is the reasoning that the negative impact may arise due to bigger boards requiring more remuneration and more income compensation, which subsequently will decrease the size of the business. Another reason may be the reputations of the board members which can also negatively affect the size criteria. For BDIVERSITY, highly significant and positive influences on EBIT were empirically found. This finding implies that diversification of board members will create a positive impact on firm size. For NEXD, an insignificant but positive impact is found on EBIT. The size of R-square with the adjustment of sample is .91 indicates a good variation in EBIT as explained through dividend factors, leverage and corporate governance.

For the 2nd model, only the impact of dividend factors and leverage on firm size is examined through robust regression equations. It is implied that both dividend payments and dividend yield have a significant but negative influence on a firm's size. This impact is noteworthy at 5% level of significance. For leverage, it is found that higher risk in the business, without

appropriate consideration of corporate governance, positively and significantly affects the firm's size.

For the 3rd model, the impact of dividend factors on firm size was examined. It was found that both dividend payments and dividend yield, significantly and negatively affect firm size. The size of overall explained variation was 67%, which indicates a robust change in EBIT. The impact of dividend payout on firm size is found to be insignificant.

For the 4th model, the impact of leverage along with governance factors were examined. It is observed that financial leverage is significantly and positively affecting the EBIT. While for the BSIZE, the impact on firm size is found to be significant and negative. The rest of the indicators of governance showed insignificant impact on firm size.

Table 5: Robust Regression Findings for LOGTA, Dividend, Capital Structure and Corporate Governance

	(5)	(6)	(7)	(8)
VARIABLES	Model 1LOGTA	Model 2LOGTA	Model 3LOGTA	Model 4LOGTA
DPAYMENTS	5.09e-08*** (1.19e-08)	5.30e-08*** (1.25e-08)	-7.63e-09* (3.93e-09)	
DIVIDENDYIELD	-0.897** (0.399)	-1.009*** (0.356)	-0.464 (0.328)	
DIVIDENDPAYOUT	-0.0174 (0.367)	-0.212 (0.364)	0.365 (0.678)	
LEVERAGE	0.239 (1.131)	0.303 (1.154)		0.299 (1.100)
BFSIZE	0.0438 (0.0385)			0.0768* (0.0407)
B DIVERSITY	-0.0770 (0.0955)			-0.0750 (0.104)
NEXD	0.0539 (0.0554)			0.0410 (0.0593)
Constant	5.430*** (0.515)	6.078*** (0.162)	4.913*** (0.146)	5.082*** (0.476)
Observations	105	105	105	105
R-squared	0.215	0.187	0.020	0.063

Robust standard errors in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

For the 2nd indicator of firm's size, total assets of all manufacturing firms was considered. For the fourth model, the impact of dividend payments over LOGTA is found to be positively significant at 1%. This indicates that higher payments will create a positive image for the company in the market place and generate increased size in return. The impact of dividend yield is found to be significant and negative under model 5, which indicates that dividend yield is negatively affecting firm size. The impact of dividend payout ratio is found to be negative but insignificant. The impact of leverage on the 2nd indicator of firm size is insignificant. In addition, BSIZE data explains that it has a significant and positive influence (0.0438) on LOGTA. For BDIVERSITY the finding of -.0770 reveals that mixed genders on the board negatively affect firm size. The coefficient of .05239 for NEXID explains that higher numbers of outside directors, can significantly and positively impact firm size.

For the fifth model, the impact of dividend payments is significantly positive, while dividend yield is found to be significantly and negatively affecting the size of manufacturing firms. However, the impact of leverage is found to be insignificant for firm size. Through Model 7 the impact of dividend factors on firm size was examined. It is found that only dividend payments are significantly and negatively affecting the LOGTA. Model 8 assesses the combined effect of leverage and corporate governance on firm size. It is found that only the BSIZE, from governance factors, is significantly and positively affecting firm size. The rest of the indicators under model 8 have no significant influence on firm size.

The third indicator for firm size is LOGFAD. It is observed that dividend payments along with dividend yield have significant impacts on firm size. While for Model 10, dividend payments, dividend yield and leverage are found to significantly affect firm size. Through Model 10, the impact of dividend payments and dividend yield is found to be significant; this finding is in line with those from Models 9 and 10. The explanatory power of Model 9 for LOGFAD indicates an overall variation of 70.3%, while for Model 10 a 68.1% variation is observed. For Models 11 and 12, it is observed that 63.2% and 72.6% variation is recorded through robust regression analysis.

Table 6: Robust Regression Findings for LOGFAD, Dividend, capital Structure and Corporate Governance

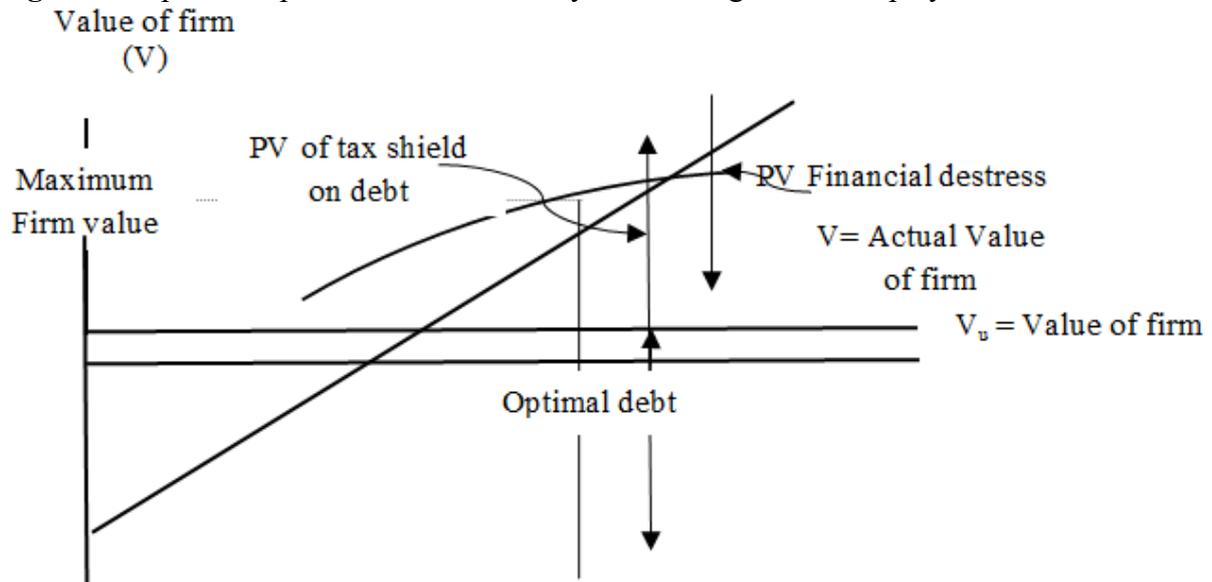
	(9)	(10)	(11)	(12)
VARIABLES	Model 1 LOGFAD	Model 2: LOGFAD	Model 3: LOGFAD	Model 4: LOGFAD
DPAYMENTS	3.14e-08*** (8.52e-09)	3.16e-08*** (8.36e-09)	3.09e-08*** (8.20e-09)	
DIVIDENDYIELD	-0.751** (0.356)	-0.779** (0.348)	-0.806** (0.336)	
DIVIDENDPAYOUT	0.0263 (0.326)	-0.0167 (0.348)	-0.0472 (0.343)	
LEVERAGE	0.602 (0.986)	0.508** (0.990)		0.734*** (0.925)
BFSIZE	0.0157 (0.0400)			0.0407*** (0.0409)
BDDIVERSITY	0.0690 (0.0635)			0.0680 (0.0671)
NEXD	0.00835 (0.0486)			-0.00344 (0.0505)
Constant	5.650*** (0.469)	5.866*** (0.157)	5.915*** (0.110)	5.377*** (0.436)
Observations	105	105	105	105
R-squared	0.703	0.681	0.631	0.726

Discussion

Hypothesis 1: There is currently no significant relationship between capital structure and firm value.

Results of testing the Hypotheses 1 are not meaningful. That is, company value is not determined by capital structure in manufacturing companies on the Indonesian Stock Exchange. The size of the debt held by the company did not affect the value of the company. There was a tendency towards debt levels, at manufacturing companies in Indonesia, being above the threshold or above optimal leverage. Therefore, capital structure did not affect the value of the company (Ahmad and Abdullah, 2013). The greater use of debt resulted in greater benefits for the use of debt acquired companies. Figure 2 shows that the use of debt may tend to cause financial distress costs which can decrease the value of the company.

Figure 2. Optimal capital structure model by considering the bankruptcy cost.



After optimum level of debt is reached, debt becomes unattractive, because companies must bear the costs of agency, financial distress and interest expenses. Although the use of large amounts of debt may have benefits such as using debt to leverage gains and obtain tax savings, thus increasing company value. However, the benefits of debt only exist up to a certain point. Companies tend to pick a funding source that has smaller costs and less risks so that they do not bear agency costs and financial distress. Apparently, company value is not determined by the size of their debt, nevertheless, there is a tendency that increases in company value were determined by the business outlook and cash flow. When the value of a company decreases, the problems of financial difficulties will also arise.

Because debt was not interesting anymore and companies are more considerate of financial difficulties, companies are forced to rely on equity to finance productive assets, so additional debt is not necessary. Therefore, it can be assumed that the trade-off theory explains that additional debt is not attractive as it would only cause financial problems, and lead to a declining company value. The amount equity used appears below the red line (Figure 2). That is, the size of additional debt did not affect the value of the company. A further indication was that the ownership of manufacturing companies in Indonesia tends to be concentrated. Shareholders were reluctant to use this type of debt in large quantities. That is the use of debt that may tend to cause financial distress costs or financial risk. In consideration of the risk of default, the company tends to use short-term debt rather than long-term debt. Subsequently, the market did not appreciate stock price so decreases in company value were meaningless (García-Meca & Sánchez-Ballesta, 2011).

This study supports the findings of Cheng et al., (2010) who found that capital structure did not significantly influence company value. A semblance of the idea of irrelevance theory by Myers and Majluf (1984) was found, this theory suggests that the size of the capital structure was irrelevant to the company value. It was suspected that the value of manufacturing companies in Indonesia was determined by the business outlook and ability to generate operating cash flow. Moreover, the debt financing decisions made by manufacturing companies in Indonesia were related to finance productive investment activities and profitability. The higher the levels of profitability the stronger the internal financing assets. Strength is reflected in the financial performance of assets that the company had well-managed (Akhtar & Oliver, 2009; Sheikh & Wang, 2011). Consequently, if the good financial performance and quality enhanced shareholder value, the market responded positively. In contrast, the suggestion from trade-off theory was that additional debt in capital structure provided benefits greater than the cost of capital and, if the benefits no longer provided additional value for the company they tended to cause financial difficulties.

The results of this study are however different from the findings of studies (Bonaimé et al., 2014; Muradoglu & Harvey, 1988) wherein capital structure was significantly and positively associated with the value of the company. This difference was considered as an objective of the study; hence, the theory was used to analyse the relationship between the company's capital structure and measurement variables (Bonaimé et al., 2014) and to perform an assessment on financial companies, utilities and studies (Muradoglu & Harvey, 1988). There are differences between the characteristics of the assets of manufacturing companies and financial companies or utilities. This study found new assumptions, so as to strengthen the enactment of trade-off theory. That is, when the additional debt exceeded the threshold of tolerance, the value was not determined by company's capital structure, because the debt was less attractive to companies. However, different assumptions were found on manufacturing companies outside the Indonesian capital market.

Hypothesis 2: There is a strong and significant role of dividends in mediating the relationship with the company's capital structure.

Dividends play a strong and significant role in mediating the effects of capital structure on firm value. That is, the higher the capital structure of dividend payment, the higher the company value. The payment of the dividend was a reflection of financial performance. Moreover, a better financial performance receives increasingly positive responses from the market. Therefore, if the stock price increased, the company's value would also increase. A few other studies (H. Chowdhury, Maung, & Zhang, 2014; Yarram, 2015) revealed that if the company was well managed and if the quality increased, the dividend payment and the value of the company would also increase.

There are indications that several manufacturing companies in Indonesia had stocks with high attraction and liquidity (blue-chip stock). A few of the characteristics of these companies were their financial ability, well-established good dividend payment history, and consistent growth (Gumanti, 2011: 34). Therefore, a good dividend payout will enhance shareholder value. The use of debt in productive investments also strengthened the internal financing. If the internal financing of dividends was strong, the value of the company would also be high. In addition to placing funds for profitable investments, the company was to maintain the stability of earnings and earnings quality, so that firm size turns into large dividend payments (Baker & Kapoor, 2015; Sirait & Siregar, 2014).

This study found that the role of dividends as variables, partially mediated the effect of capital structure on firm value. This means that capital structure directly, and indirectly, affected company value. Additionally, the market responded positively and the productive use of debt funds enhanced shareholder value. Moreover, the payment of dividends was also a reflection that the company was well managed and qualitative, and reflected that the company's future would be good (Chowdhury et al., 2014). There was an impression that the company used debt on productive investments and therefore it was able to pay dividends in large quantities. The market reaction to large amounts of dividend payments raises share prices and thus, company value increases (Vieira, 2011).

Studies like Baker & Kapoor (2015) and Baker & Powell (2012) reveal that the dividend was a portrait of the future of the company and if the market responded positively, the company's value also would increase. Therefore, the agency conflict did not arise. Consequently, this study reinforced the assumption that enactment trade-off theory played a significant role in pushing the value of the company, if the use of debt was not significant in boosting company value. Although the issue of dividend policy is not yet resolved and looks like a puzzle, with pieces of debris that were falling apart and that were not in conformity with each other (Bhattacharyya, Mawani, & Morrill, 2008). The reality is that the dividends played a significant role in increasing the value of the manufacturing companies in Indonesia.

This study supports the studies by (Ramachandran & Packkirisamy, 2010; Tong et al., 2005), which examined the impact of capital structure on dividend policy. This study also supported the research studies of (Amidu, 2007; Baker & Kapoor, 2015; Baker & Powell, 2012; Tsuji, 2010), which were related to strong dividend policy and company value. These studies also felt that if dividend payments increased, internal investment funding would be reduced. As a result, additional capital would be required, for which the company would issue new shares and/or alter the composition of the capital structure. Therefore, it was concluded that companies should increase profitability to cover the lack of internal funding (Al-Malkawi, 2007; Patra, Poshakwale, and Ow-Yong, 2012).

Hypothesis 3: *There is a strong and significant role between corporate governance, capital structure and company value.*

The test results found that there was an effect of strengthening corporate governance and capital structure on the company's value. The stronger or better the corporate governance, the stronger the influence of capital structure on firm value. This indicates that the manufacturing companies in Indonesia implemented the principles of corporate governance, such as transparency, accountability, responsibility, independence, and fairness as proposed by Mitra & Hossain (2011). This was evident from the board's role in overseeing the frequency of meetings of shareholders, and their auditor's independence, which were all based on the principles of GCG. Klapper and Love (2004) revealed that better governance, and better performance of the company's operations, the greater the impact on the market value of the company.

When there is stronger corporate governance, positive perception of investors emerge and the company is able to properly manage the earnings, as well as sustain, or improve, their quality (Ebaid, 2013); this will result in increased corporate value. Strong corporate governance should be enacted by companies to maintain the quality of earnings and manage sufficient internal funds to finance productive investments. It is believed that greater company transparency could overcome the problem of asymmetry of information for shareholders when making investment decisions (Baydoun, Maguire, Ryan, & Willett, 2013). The smaller the information asymmetry, the better the corporate governance. There should be a special characterization of corporate governance, for example, to put intellectual capital as the characterization of the power of corporate governance (Appuhami & Bhuyan, 2015).

This study found corporate governance to be a moderating variable acting as a pseudo or quasi-moderator (Solimun, 2012). This means that corporate governance cannot stand alone. However, corporate governance and capital structure can interact together to influence the value of the company. Interaction between capital structure and corporate governance determines the value of the company. However, the practice of corporate governance in Indonesia is still low. As reported in a study by Setiawan & Phua (2013), the average transparency and disclosure index (TDI) was only 32.75 percent. Although the practice of corporate governance in Indonesia was still low, the use of debt funds always took into consideration the principles of benefit and risk. Though when the benefit of using debt was greater than the cost of the capital the additional debt was still being utilised. When additional debt exceeded the threshold then it tended to cause a financial risk, and the value of the company declined. Studies by (Dimitropoulos, 2014; Koerniadi, Krishnamurti, and Tourani-Rad, 2014) reveal that good governance reduces potential financial risks.

This study supports the findings of studies by (Dharmapala & Khanna, 2011; García-Meca & Sánchez-Ballesta, 2011; Leung and Cheng, 2013; Liang, Huang, & Lin, 2011; Tian & Twite, 2011; Tsai & Tung, 2014) which found that strong corporate governance could prove powerful and meaningful to the value of the company. The result would then be a market with strong confidence in the company, if they are well managed and are of good quality (Garay & Gonzalez, 2008). Other studies (Bhagat & Bolton, 2008; Wruck & Wu, 2009) state that corporate governance is good to strengthen performance and to make an impact on the value of the company. Assuming strength trade-off theory was the principle of benefits and costs, then corporate governance was based on the principles of benefit and strong cost, strong capital structure, and high firm value. By contrast, corporate governance was not based on principles of benefit when cost will be fragile and the capital structure and value of the company would be weak or low. On the other hand, if fragile corporate governance was unlikely to strengthen financial performance, the value of the company would no longer be determined by the size of the capital structure. The strength of interaction between corporate governance and capital structure is in reinforcing the value of the company. Therefore, this study has reinforced the assumption by the enactment of the trade-off theory.

In contrast to the study, in the study by Isshaq et al. (2009), corporate governance did not affect the value of the company. Here, good governance was not measured by the amount of additional interest. Therefore, no significant additional interest in the stock price was observed. But, grounded by principles, corporate governance encouraged operations and made an impact on the increase in the stock price. Effective corporate governance also depended on managerial behaviour in the management of corporate resources. This study is different from the findings Isshaq et al. (2009) since it has considered the use of theory in justifying the role of governance to corporate value.

Conclusions

This study found a new concept for strengthening the assumptions in the form of the enactment of trade-off theory. That is, when additional debt exceeded the threshold of tolerance, the value was not determined by the company's capital structure. As a result, the debt was no longer of any interest to the company since the size of the additional debt did not affect the value of the company. But there could be found a different assumption on manufacturing companies outside the Indonesian capital market. A good dividend would portray that the company was well managed and high quality, and therefore there was a strong market response or increased corporate value. However, dividends play a significant role in pushing the value of the company if the use of debt is not significant in boosting the company's value. The role of strong corporate governance rested on the principle of benefit and cost, so as to strengthen relationships within the company's capital structure. The strength

of interaction with corporate governance and capital structure were also seen to reinforce the value of the company.

The findings under robust regression analysis indicate that factors like dividend payments, and dividend yield are significant determinants of EBIT. While the impact of leverage on EBIT is found to be significant in Models 1 to 4. Meanwhile, factors like board size, and board diversity are found to be significant determinants of EBIT. Under Models 5 to 8 the impact of dividend payment and dividend yield on LOGTA is found to be significant. While the impact of leverage in these models on EBIT is not significant in any combination. However, only the impact of board size is found to be significant for LOGTA in Model 8. For Models 9 to 12, it is found that dividend payments and dividend yield are again the significant determinants for LOGFAD. For leverage, it is found that without the presence of dividend factors, it significantly and positively affects LOGFAD. The impact of board size on LOGFAD is found to be positive and significant.

This study has limitations in terms of its objectives and the measurement of corporate governance variables. Future research can go forward and expand upon the research objectives to focus not only on manufacturing companies. Similarly, besides the measurement variables of governance, studies can also be carried out on principles of transparency, accountability, responsibility, independence, and fairness, through data techniques collection using perceptions data. In addition, this study is also limited to the time duration and future work can be conducted while adding more time observation with a better sample size.

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