Effect Of Capital Structure

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Effect of Capital Structure and Good Corporate Governance on Financial Performance in Manufacturing Companies based on the Indonesia Stock Exchange

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Abstract: *This study aimed to analyze the effect of capital structure and good corporate governance on the financial performance of manufacturing companies in BEI period 2013-2015. Capital structure variables measured by Debt to Equity Ratio (DER), while the variables of Good Corporate Governance is measured by the size of the Board of Directors, size of the Board of Commissioners, Audit Committee Size, Managerial Ownership and Institutional Ownership. As for the financial performance of companies in this study was measured by Return on Equity (ROE).This study uses secondary data from the annual report companies listed in Indonesia Stock Exchange 2013-2015 period through www.idx.co.id. The research data obtained by 30 sample companies with purposive sampling technique based on the established criteria. The data analysis technique used is a model of multiple regression analysis using SPSS version 21.0.The results showed that the partial, variable debt to equity ratio, the size of the audit committee, and institutional ownership has positive and significant effect on the financial performance of companies, while for the variable size of the board of directors, the size of the board of commissioners, and managerial ownership has negative and not significant effect on the financial performance of companies. For simultaneous test, the results showed capital structure and good corporate governance has positive and significant effect on financial performance.*

Keywords: *Financial Performance; Capital Structur; and Good Corporate Governance*

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I. Introduction

One of the important objectives of establishing a company is to improve the welfare of its owners or shareholders through improving the company's financial performance. The improved performance can be achieved if the company is able to operate by achieving targeted profits. Through the profits obtained the company is able to provide dividends to shareholders, increase company growth and maintain its survival (Febriyanto, 2013).

Speaking of a good company management system, the conditions faced by public companies in Indonesia are still weak in managing companies. This is indicated by the still weak accounting and regulatory standards, accountability to shareholders, disclosure and transparency standards and company management processes. This fact indirectly shows the weakness of public companies in Indonesia in carrying out good management in satisfying the '*s stakeholders* company.

In Indonesia, this weakness began to be identified since the Asian economic crisis in 1997 which also had an impact on Indonesia in 1998 where the impact of the crisis showed that many companies were unable to survive. In an effort to overcome these weaknesses, business people in Indonesia agree on the implementation of *Good Corporate Governance* (GCG), a good corporate management system. This was followed up by the signing of aagreement *Letter of Intent* (LOI)with the IMF in 1998, one of which was to include a schedule for improving company management in Indonesia (Meyti and Lusiyana, 2011 and Febriyanto, 2013).

In the Decree of the Minister of State-Owned Enterprises Number: Kep-117 / M-MBU / 2002 concerning the Implementation ofPractices *Good Corporate Governance*. The State Owned Enterprises (BUMN) explained that this practice is a process and structure used by SOE organs to increase business success and corporate accountability in order to realize shareholder value in the long term while taking into account the interests of *stakeholders* other, based on legislation and values. ethical value.

Although the importance of implementing *Good Corporate Governance* is very clear, concrete implementation among business actors in Indonesia is still relatively minimal. Empirical evidence obtained from

the research of Zhuang, et al in 2000 in Purwani (2010), shows the weakness of public companies in Indonesia in managing companies compared to Southeast Asian countries. This is indicated by the still weak accounting and regulatory standards, accountability to shareholders, disclosure and transparency standards and company management processes.

In Bisnis Indonesia, 2005, severalresults *survey* were shown that showed similar things, including: (1) a *survey* conducted by Mc Kinsey & Co. of 250 global investors from three continents, namely the US, Europe and Asia, in mid-2000, it was found that the application of *Good Corporate Governance* in Indonesia was ranked lowest; (2) the) *survey* CLSA (*Credit Lyonnais Securities Asia*at the end of 2004 ranked Indonesia 10th or worst in Southeast Asia for implementing *Good Corporate Governance*; and (3) *surveyStandard & Poors* also stated that the implementation of the concept in Indonesia was generally stagnant.

In addition, the emergence of various accounting scandals that occurred in several companies has resulted in a decline in public confidence, especially investors in financial reporting presented by the company. One of them has happened in Indonesia, namely the discovery by the Supreme Audit Board of several violations of PT Jamsostek's compliance with its 2011 financial statements with a value above Rp 7 trillion. (Rustia, 2012).

By looking at some of the phenomena above, it is very relevant when a question is asked about the effectiveness of the implementation of *Corporate Governance*. Yet according to Ujiyanto (2007), *Good Corporate Governance* is one of the key elements in increasing economic efficiency, which includes a series of relationships between company management, the board of commissioners, shareholders and *stakeholders* other.

Some other empirical evidence that shows that implementing *GCG* can improve company performance includes research conducted by Firth *et al*. (2002), Dobetz, *et al*. (2003), Ashbaugh, *et al*. (2004), Brown and Caylor (2004), and Alexakis *et al*. (2006) in Trisnantri (2010).

Then research conducted by Pranata (2007) which shows that the importance of implementing GCG in supporting the achievement of company goals is then supported by Hardikasari (2011), Wati (2012), Marn and Romuald (2012), Yudha, *et al*. (2015), and Tertius, *et al*. (2015), where the results of the study showed that GCG has a positive and significant relationship to company performance.

On the other hand, research conducted by Purwani (2010), Rahayu (2011), Meythi *et al* (2011), and Iqbal Bukhori (2012) shows that the implementation of GCG has no positive and significant relationship with company performance. This contradiction is one background of the study of the influence of the implementation of *Good Corporate Governance* on the company's financial performance.

Besides the implementation of *Good Corporate Governance*, another factor that makes a company competitive in the long run is due to the strong capital structure the company has from investments made by its owners. Business owners invest in their business not only to get short-term profits, but are expected to continue to improve their welfare in the future.

According to Fahmi (2014: 185), the capital structure is aimed at integrating permanent sources of funds which are then used by the company in a way that is expected to be able to maximize the value of the company. For a company it is deemed important to strengthen its financial stability, because changes in capital structure are thought to cause changes in company value. The company's value is obtained from the results of the quality of a company's performance, especially financial performance (*financial performance)*.

According to *Fact Book* in www.idx.co.id (2011-2014), the number of companies that *went public* has a debt level in the capital structure that is still quite high and tends to increase. This can be seen in the data that shows the average *Debt to Asset Ratio* (DAR)public company in Indonesiaduring 2011 to 2014, 52% in 2010, 51% in 2011, 53% in 2012 and 55% in 2013. This figure shows that the proportion of company assets funded by debt is quite large.

In addition, a number of studies examining the effect of capital structure on company performance have been carried out and have shown different results. Study in America conducted by Modigliani and Miller (1958) states that capital structure does not determine firm value. Then in 1963, Modigliani and Miller conducted further research, with a loosened assumption, which was to consider income tax. In contrast to previous studies, the results of this study indicate that the level of debtpositive effect on company value. This is because debt funding creates an interest expense that serves as a*tax shield*.

Next, a European study conducted by Gleason et al. (2000) states that the level of debt has a negative effect on company performance. This is due to the fact that too much debt (*overleverage*) causes the company's profits to run out of paying a very high interest expense. Meanwhile, Ebaid's research (2009) conducted in Egypt shows that the level of debt has a very weak negative effect on company performance.

The difference that occurred in previous studies lies in the research sample and measurement of the dependent variable (corporate financial performance). In addition, the existence of a *research gap* in previous studies, makes this research necessary to re-examine the effect of capital structure on the company's financial performance.

II. Literature Review

Stakeholder-theory

Theory *stakeholder* changed the definition in recent decades. Friedman (1962) said that the company's main goal is to maximize the prosperity of their owners. This shows that the definition of *stakeholders* initially only refers to the owner of the company. However Freeman (1983) broadens the definition of *stakeholders* to include more constituents, including groups that are not profitable for the company.

Capital Structure-Theory

Pecking Order Theory. Thetheory was *pecking order* first put forward in 1984, Stewart C. Myers in *Journal of Finance* volume 39 with the title *The Capital Structure Puzzle*, states that a sort of*pecking order*for companies in using capital. This theory was first introduced by Donaldson in in 1961 while naming the *pecking order theory was* carried out by Myers, (1994) (Husnan, 1996 in Sriwardany, 2006).

Static Trade Off Theory. *Static trade off theory is* based on *costs* and *benefits*, between the cost of capital and the benefits of using debt, namely between bankruptcy costs and tax benefits. Thetheory *static trade off* arises because of the incorporation of Modigliani-Miller (MM) which included bankruptcy and agency costs. This indicates a *trade off* between tax savings from debt and bankruptcy costs (Hanafi, 2004: 311).

Good Corporate Governance Theory

Agency Theory. Agency theory in financial management discusses the existence of agency relationships, namely the relationship regarding the separation between ownership and management by the manager. Such agency relationships are prone to conflicts, namely conflicts of personal interests (Jensen & Meckling, 1976 in Febriyanto, 2013).

Assumption of Human Nature. Eisenhardt (1989) in Larasati (2009) uses three basic human assumptions to explain agency theory, namely: 1) Humans are generally*self-interested*; 2) Humans have limited thinking about the perception of the future (*bounded rationality*); and 3) Humans always avoid risk (*risk adverse*).

Information Asymmetry. Information asymmetry is a situation where managers have access to information on company prospects that are not owned by outsiders. There are two types of information asymmetry, namely: *adverse selection and moral hazard Scott* (2000).

Capital Structure Capital

structure according to Kusumajaya (2011) is part of the financial structure that can be interpreted as permanent expenditure that reflects the balance between long-term debt with own capital. In this study, the determinants of capital structure that will be further investigated are *Debt to Equity Ratio* (DER). Mathematically DER can be formulated as follows (Fahmi, 2014):

$$\textbf{Debt to Equity Ratio} = \frac{\textbf{Total Liabilities}}{\textbf{Shareholders' Equity}}$$

Total liabilities are total debt (both short-term and long-term debt) while *shareholder's equity* is total own capital (total paid-in capital and retained earnings) owned by the company. This ratio shows the composition or capital structure of total loans (debt) to the total capital owned by the company. The higher the DER shows the composition of total debt (short-term and long-term) is greater than the total own capital, so that the greater the company's burden on external parties or creditors (Robert, 1997).

Good Corporate Governance (GCG)

The term "*corporate governance*" was first introduced by the *Cadbury Committee*, UK in 1992, which used the term in its report which became known as *Cadbury Report* (Agoes, 2006). The definition of Good Corporate Governance according to the *Cadbury Committee of the United Kingdom*: "*A set of rules that define the relationship between stakeholders, managers, creditors, the government, employees and other internal and external stakeholders in respect to their rights and responsibilities, or the system by which companies are directed and controlled*. " ["A set of regulations governing the relationship between shareholders, management (managers) of the company, creditors, government, employees, and other internal and external stakeholders relating to their rights and obligations; or in other words a system that directs and controls the company."](Agoes and Ardana, 2014: 101).

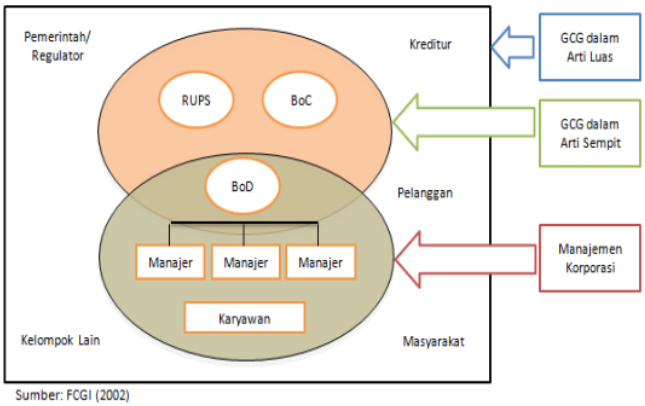

Figure 1. ***Corporate governance*** **in perspective**

Remarks:
GMS :General Meeting of Shareholders
BoC : *Board of Commissioners*
BoD: *Board of Directors*

Company Financial Performance Financial

performance according to Fahmi (2012: 2) is an analysis conducted to see the extent to which a company has carried out its business activities by using the rules of financial implementation properly and correctly. Like by making a financial report that meets the standards and provisions in SAK (Financial Accounting Standards) or GAAP (*General Accepted Accounting Principle*), and others.

Furthermore, the company's financial performance is a picture of the financial condition of a company that is analyzed with financial analysis tools, so that it can be known about the good and bad financial condition of a company that reflects work performance in a certain period. This is very important so that resources are used optimally in the face of environmental changes. Financial performance appraisal is one of the ways that can be carried out by management in order to fulfill its obligations to funders and also to achieve the goals set by the company. (Cahyani, 2009).

III. Research Method

approachused in this research is a quantitative approach. The type of data used in this study is quantitative secondary data in the form of an annual financial report (*annual report*) of manufacturing companies listed on the Indonesia Stock Exchange (IDX). Sources of data in this study were obtained from the Indonesia Stock Exchange (IDX) with the Representative Office (KP) of the Makassar Branch of IDX and through its official website at www.idx.co.id. Considering the limited data and the relatively stable capital market conditions, this study uses the 2013-2015 research period. Data collection techniques used in this study were carried out using documentation techniques, namely by collecting data based on documents or other written reports relating to capital structure (D*ebt to Equity Ratio*/ DER),variables *Good Corporate Governance* (the size of the board of directors , the size of the board of commissioners, the size of the audit committee, managerial ownership, and institutional ownership) and the company's financial performance (*Return on Equity* /ROE). The population in this study were all manufacturing companies listed on the Indonesia Stock Exchange in the period 2013-2015. In this study, sample data sources were selected by *purposive sampling*. In other words, the company sample is chosen based on certain criteria.

The criteria for determining the sample in this study are: 1) Companies engaged in manufacturing registered on the IDX during the 2013-2015 observation period; 2) The company was not*delisted*during the 2013-2015 observation period; 3) The company has issued annual financial reports (*annual report*) which end on December 31 continuously during the 2013-2015 observation period; and 4) In the *annual report*, the company has complete data related to *Debt to Equity Ratio* (DER), Board of Directors Size, Board of Commissioners Size, Audit Committee Size, Managerial Ownership, Institutional Ownership, and *Return on Equity* (ROE) continuously during 2013-2015 observation period.

Data analysis uses the classic assumption test (normality test, multicollinearity test, heteroscedasticity test, autocorrelation test), hypothesis testing (F test, coefficient of determination, t-test), multiple regression analysis. The program used to assist in analyzing the data in this study is the SPSS (application

program*Statistical Package for the Social Sciences*) Version 21.0.The multiple linear regression formula used is:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + e$$

Description:

Y	=	*Return on Equity* (ROE)
α	=	Constants
β_{1-4}	=	Regression coefficient
X_1	=	*Debt to Equity Ratio (DER)*
X_2	=	Board of Directors Size
X_3	=	Board of Commissioners Size
X_4	=	Audit Committee Size
X_5	=	Managerial Ownership
X_6	=	Institutional Ownership
e	=	Residual Variable (error rate)

IV. Results And Analysis

Description of Research Results

This study uses secondary data from manufacturing companies listed on the Stock Exchange during 2013-2015. Data is derived from the financial statements for 2013-2015 through www.idx.co.id ,Samples of manufacturing companies obtained in this study were 30 companies. Sampling can be seen in the table below:

Table 1. Study sample details

Criteria	Number
of manufacturing companies listed on the Indonesia Stock Exchange in 2013-2015	126
Manufacturing companies that do not publish financial reports consistently in 2013-2015	-10
Manufacturing companies that do not have a committee audit	-1
Manufacturing companies that do not have managerial ownership data	-72
Manufacturing companies whose data were selected not to be included in the study sample because of damage	-13
Companies that were sampled	30

Source: Secondary data processed by researchers, 2017

Table 2. Classification of Research Samples by Sector andIndustry Sub Sector Manufacturing

NO.	OF COMPANIES	NUMBER
A.	**Basic Industry and Chemical Sector**	
	1) Ceramics, Porcelain and Glass	2
	Sub-sectors2) Metal and Other Sub-Sector	6
	3) Chemical Sub-Sector	3
	4) Plastic and Packaging Sub-Sector	3
B.	**Various Industry Sectors**	
	1) Automotive and Components	5
	Sectors 2 2) Cable Sub-Sector	1
C.	**Consumer Goods Industry Sector**	
	1) Food and Beverage Sub Sector	3
	2) Cigarette Sub Sector	2
	3) Pharmaceutical Sub Sector	2
	4) Cosmetic and Household Goods	2
	Sub Sector5) Household Equipment Sub Sector	1
	Total	**30**

Sources: Secondary data processed by researchers, 2017

The variables used in this study include *Debt to Equity Ratio* (DER), board size, board size, audit committee, managerial ownership, and institutional ownership as independent variables. While the dependent variable is the company's financial performance as measured by *Return on Equity (ROE)* . These variables will be tested descriptively as follows:

Table 3. Descriptive statistics of DD, DK, KA, DER, KM, KI, and ROE variables

	N	Minimum	Maximum	Mean	Std. Deviation
DD	90	2	13	4.91	2,538
DK	90	2	15	4.58	2,622
KA	90	2	5	3.07	.391
DER	90	2.62	6.34	4.2701	.87373
KM	90	-9.21	3.32	-.3251	2.86134
KI	90	3.11	4.58	4.1864	.32411
ROE	90	-4.61	4.23	1.8972	1.42016
Valid N (listwise)	90				

Source: *output* SPSS 21.0, data processed.

The independent variable The size of the board of directors (DD) is the number of members of the board of directors in a company. In table 3 it can be seen that the average value of the size of the board of directors of manufacturing companies on the Stock Exchange in 2013-2015 was 4.91 and the standard deviation was 2.54 where the standard deviation is smaller than the average value. This condition shows that there is no fluctuation in the size of the large board of directors of the sample companies during 2013-2015. In table 3 it can also be seen that the minimum value of the size of the board of directors 2 and the maximum value reaches 13, it can be concluded that the sample companies during 2013-2015 have different sizes of the board of directors.

The size of the board of commissioners (DK) is the number of members of the board of commissioners on duty in a company that is mentioned in the annual report. In table 3 can be seen the average value of the size of the board of commissioners in manufacturing companies on the Stock Exchange in 2013-2015 of 4.58 and a standard deviation of 2.62, where the standard deviation is also smaller than the average value. This shows that the fluctuations in the size of the board of commissioners were also small in the sample companies during 2013-2015. In table 3 it can also be seen that the minimum value of the size of the board of commissioners is 2 and the maximum value reaches 15. This shows that most of the sample companies during 2013-2015 also have different sizes of the board of commissioners.

The size of the audit committee (KA) is the number of audit committee members in the company's annual report. In table 3 it can be seen that the average value of the size of the audit committee in manufacturing companies on the Stock Exchange in 2013-2015 was 3.07 and the standard deviation was 0.39 where the standard deviation is smaller than the average value. This shows the existence of small fluctuations in the sample companies during 2013-2015. In table 3 it can also be seen that the minimum size of the audit committee size is 2 and the maximum value is 5. This shows that some sample companies in 2013-2015 have relatively the same size of the audit committee.

Debt to Equity Ratio (DER) is a comparison between the company's total debt with its own capital. In table 3 it can be seen that the DER value of manufacturing companies on the Indonesia Stock Exchange in 2013-2015 was 4.27% with a standard deviation of 0.87% where the standard deviation is smaller than the average value. This shows the absence of large DER fluctuations in the sample companies during 2013-2015. Table 3 also shows the minimum DER value of 2.62% and a maximum value of 6.34%, this condition shows that the sample companies during 2013-2015 have a positive DER.

Managerial ownership (KM) is the percentage (%) of the number of shares owned by management, namely managers, affiliated commissioners (outside the independent commissioners), and directors with the number of shares outstanding. In table 3 it can be seen that the average value of managerial ownership in manufacturing companies on the Stock Exchange in 2013-2015 was -0.33% with a standard deviation of 2.86%, where the standard deviation is greater than the average value. This shows that there are large managerial ownership fluctuations in the sample companies during 2013-2015. In table 3 it can also be seen that the minimum value of managerial ownership is -9.21% and the maximum value is 3.32%. This shows that some of the sample companies during 2013-2015 had negative managerial ownership.

Institutional ownership (KI) is the percentage (%) of the number of shares owned by the institution with the total number of shares outstanding. In table 3 it can be seen that the average value of institutional ownership in manufacturing companies on the Stock Exchange in 2013-2015 was 4.19% with a standard deviation of 0.32%, where the standard deviation is smaller than the average value. This shows the absence of large institutional ownership fluctuations in the sample companies during 2013-2015. Table 3 also shows the minimum institutional ownership value of 3.11% and the maximum value of 4.58%. This shows that some of the sample companies during 2013-2015 had positive institutional ownership.

Dependent variable

Return on Equity (ROE) is the ratio between earnings after tax minus capital itself. In table 3 it can be seen that the average value of ROE in manufacturing companies on the Stock Exchange in 2013-2015 was 1.90% with a standard deviation of 1.42%, where the standard deviation is smaller than the average value. This shows the existence of small ROE fluctuations in the sample companies during

2013-2015. Table 3 also shows the minimum ROE of -4.61% and the maximum value of 4.23%. This shows that some of the sample companies during 2013-2015 had a negative ROE.

Data Analysis of Classical Assumption Test
Results Normality Test Results

Table 4. Test *Kolmogorov-Smirnov*

		Unstandardized Predicted Value
N		90
Normal Parameters[a, b]	Mean	1.8971619
	Std. Deviation	1.10351591
Most Extreme Differences	Absolute	.100
	Positive	.100
	Negative	-.087
Kolmogorov-Smirnov Z		.953
Asymp. Sig. (2-tailed)		.324

Source: *Output* SPSS21.0, data processed.

From the results of the *Kolmogorov-Smirnov test* in Table 4 above, it can be seen that the magnitude of the *Kolmogorov-Smirnov value* in the table is 0.953 and significant at the 0.324 figure. Based on the *Kolmogorov-Smirnov* value of> 0.05 or 5%, it can be concluded that the residual data are normally distributed.

The test results multikolinearitas

Model		collinearityStatistics	
		Tolerance	VIF
1	(Constant)		
	DER	.138	7233
	DD	.101	9861
	DK	.211	4740
	KA	.471	2121
	KM	.252	3.969
	KI	.224	4.466

Table 5. Test the value of *tolerance* and VIF

Source: *Output* SPSS21.0, data processed.

From table 5 above, it can be seen that thevalue *tolerance* of each independent variable is no less than 0.10. While the VIF value of each independent variable does not exceed the value of 10. Based on the *tolerance* value and the VIF value from the table above it can be concluded that there is no multicollinearity.

Heteroscedasticity test results

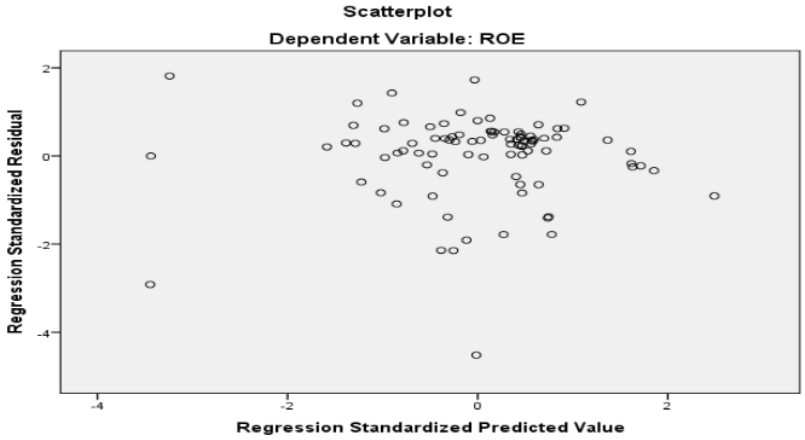

Figure 2. test graph *Scatterplot*
Source:*output* SPSS21.0, data processed.

Based on Figure 2 above, it can be concluded that there was no heteroscedasticity in the regression model. This can be seen at the points that spread and do not form certain clear patterns either above or below the number 0 on the Y axis. Thus, the regression model in this study is feasible to be used to predict ROE based on input independent variables *Debt to Equity Ratio* (DER), board size, board size, audit committee size, managerial ownership, and institutional ownership.

Autocorrelation test results

Table 6. Test the value of *the Durbin-Watson*

Model	*Durbin-Watson*
1	1786

Source: *Output* SPSS 21.0, data is processed

Based on table 6 above, it appears that thevalue *Durbin-Watson* of 1.786.

Regression analysis

Simultaneous test results (F-test)

Table 7. F-statistic test value

Model		of the Sum of Squares	df	Mean Square	F	Sig.
1	Regression	108 380	6	18 063	21 081	.000[b]
	Residual	71 119	83	.857		
	Total	179 499	89			

Source: *Output* SPSS 21.0, the data is processed.

Based on table 7 above, from the ANOVA or F test results obtained the$F\ value_{calculated}$ of 21.081 with a significance value of 0.000. Because the significance value is much smaller than 0.05, it can be concluded that the regression model in the study is appropriate to predict ROE. In this case, the independent variables consisting of *Debt to Equity Ratio* (DER), board size, board size, audit committee size, managerial ownership, and institutional ownership simultaneously have a significant effect on financial performance as measured by ROE.

The result of the coefficient of determination (R2)

Table 8. Test the value *of Adjusted R Square*

Model	R	R Square	Adjusted R Square	Std. of the Estimate	Error
1	.777[A]	.575 .92567		.604	

Source: *Output* SPSS 21.0, the data is processed.

Based on table 8 above, it can be seen that the *Adjusted R Square value* is 0.575. This means that 57.50% of the variation in ROE can be explained by variations in the independent variables namely *Debt to Equity Ratio* (DER), the size of the board of directors, the size of the board of commissioners, the size of the audit committee, managerial ownership, and institutional ownership. While the remaining 42.50% is influenced by other factors not included in the regression model in this study.

Partial test results (t-test)

Table 9. Test value of t-statistics

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-11,071	2,232		-4,961	.000
	DER	.644	.302	.396	2,133	.036
	DD	-.049	.121	-.088	-.406	.686
	DK	-.086	.081	-.159	-1.057	.294
	KA	.919	.366	.253	2513	.014
	KM	-.013	.068	-.026	-.188	.852
	KI	1.919	.640	.438	2999	.004

Source: *Output* SPSS 21.0, the data is processed.

Based on table 9 above, a constant value of -11,071 can be seen. This shows that ROE has a value of -11,071% without being influenced by independent variables (*Debt to Equity Ratio* / DER), board size, board size, board size, audit committee size, managerial ownership, and institutional ownership).
Based on the results of the t-test in table 9, the following regression equation is obtained:
ROE = - 11.071 + 0.644 DER - 0.049 DD - 0.086 DK + 0.919 KA - 0.013 KM + 1.919 KI + e

Explanation of the regression equation is:
Constant coefficient of - 11,071 with a negative value, this can be interpreted that the dependent variable *Return on Equity* (ROE) will be -0.11071% or decreased if the coefficient of the independent variable *Debt to Equity Ratio* (DER), the size of the board of directors, the size of the board of commissioners, the size of the audit committee , managerial ownership, and institutional ownership are each worth 0.
regression coefficient *Debt to Equity Ratio* (X1). The coefficient of the DER variable (β1 = 0.644) shows that every DER increase of 1% assuming the magnitude of the other variables is constant, then the financial performance as measured by ROE will increase by 0.644%.
Regression coefficient of the size of the board of directors (X2). The variable coefficient DD (β2 = -0.049) shows that each increase in the board of directors by 1% assuming the magnitude of the other variables is constant, then the financial performance as measured by ROE will decrease by 0.049%.
Regression coefficient of commissioner size (X3). The variable coefficient DK (β3 = -0.086) shows that each increase in the board of commissioners by 1% assuming the magnitude of the other variables is constant, then the financial performance as measured by ROE will decrease by 0.086%.
Audit committee size regression coefficient (X4). The KA variable coefficient (β4 = 0.919) shows that each increase in audit committee members by 1% assuming the magnitude of the other variables is constant, then financial performance as measured by ROE will increase by 0.919%.
Managerial ownership regression coefficient (X3). The coefficient of the variable KM (β5 = -0.013) shows that each increase in managerial ownership by 1% assuming the magnitude of the other variables is constant, then financial performance as measured by ROE will decrease by 0.013%.
The institutional ownership regression coefficient (X4). The coefficient of the variable KA (β6 = 1.919) shows that each increase in institutional ownership by 1% assuming the magnitude of the other variables is constant, then the financial performance as measured by ROE will increase by 1.919%.

Hypothesis testing andresearch results
H1: DERaffect ROE. Based on table 9, from the calculation of multiple linear regression values obtained regression coefficient *Debt to Equity Ratio* (DER) of 0.644 with a significance value of 0.036. Because the value of the positive regression coefficient and significance value is smaller than 0.05, the hypothesis is accepted, which means that DER has a positive and significant effect on ROE for manufacturing companies on the Stock Exchange in the 2013-2015 period. This means that the higher the *Debt to Equity Ratio* , the higher the ROE value of the company.
H2: The size of the board of directors influences ROE. Based on table 9, from the calculation of multiple linear regression the regression coefficient values obtained by the size of the board of directors are -0.049 with a significance value of 0.686. Because the value of the negative regression coefficient and significance value is far greater than 0.05, the hypothesis is rejected, which means that the size of the board of directors has a negative and not significant effect on ROE for manufacturing companies on the Stock Exchange in the 2013-2015 period. This means that the more members of the board of directors, the lower the ROE value of the company.
H3: The size of the board of commissioners influences ROE. Based on table 9, from the calculation of multiple linear regression obtained the regression coefficient size of the board of commissioners of -0.086 with a significance value of 0.294. Because the value of the negative regression coefficient and significance value is far greater than 0.05, the hypothesis is rejected, so it can be concluded that the size of the board of commissioners has a negative and not significant effect on ROE for manufacturing companies on the Stock Exchange in the 2013-2015 period. This means that the more members of the board of commissioners, the lower the ROE value of the company.
H4: The size of the audit committee influences ROE. Based on table 9, from the calculation of multiple linear regression values obtained regression coefficient coefficient size of the audit committee is 0.919 with a significance value of 0.014. Because the value of the positive regression coefficient and significance value is smaller than 0.05, the hypothesis is accepted, so it can be concluded that the size of the audit committee has a positive and significant effect on ROE for manufacturing companies on the Stock Exchange in the 2013-2015 period. This means that the more members of the audit committee, the higher the ROE value of the company.
H5: Managerial ownership affects ROE. Based on table 9, from the calculation of multiple linear regression obtained the value of the managerial ownership regression coefficient of -0.013 with a significance value of

0.852. Because the value of the negative regression coefficient and significance value is far greater than 0.05, the hypothesis is rejected, so it can be concluded that managerial ownership has a negative and not significant effect on ROE for manufacturing companies on the Stock Exchange in the 2013-2015 period. This means that the greater the managerial ownership, the lower the ROE value of the company.

H6: Institutional ownership influences ROE. Based on table 9, from the calculation of multiple linear regression, the regression coefficient value of institutional ownership variable is 1,919 with a significance value of 0.004. Because the value of the positive regression coefficient and significance value is smaller than 0.05, the hypothesis is accepted, so it can be concluded that institutional ownership has a positive and significant effect on ROE in manufacturing companies on the Stock Exchange in the 2013-2015 period. This means that the greater the institutional ownership, the higher the ROE value of the company.

Furthermore, based on table 9, from the ANOVA or F *test results* obtained theF $value_{calculated}$ of 21.357 with a significance value of 0.000. Because the F_{count} positive and significant value much smaller than 0.05, it can be concluded that the capital structure*(debtto equity ratio*/ DER) and *Good Corporate Governance* (the size of the board of directors, board size, the size of the audit committee, managerial ownership, and institutional ownership) simultaneously has a positive and significant effect on the company's financial performance (*Return on Equity*/ ROE) in manufacturing companies in the 2013-2015 period.

V. Discussion

Effect of capital structure(DER) on financial performance

Based on the results of the t-test shows that the capital structure measured by *Debt to Equity Ratio* (DER) has a positive and significant effect on financial performance as measured by *Return on Equity* (ROE). This provides information that a high capital structure (DER) will improve corporate financial performance (ROE), and vice versa. Capital structure (DER) has a direct movement with financial performance (ROE), where if the debt value is low it will reduce the ROE value, but if the debt value is high it will increase the ROE value. According to Brigham and Houston (2010) in Ferdiansyah (2013) Modigliani-Miller Preposition with the assumption that the*expected value*of the*return on equity* (ROE) increases with the increasing ratio of debt to capital /*Debt to Equity Ratio* (DER). The increase in ROE expectations is driven by an increase in financial risk that will be borne by corporate investors due to increased debt (DER), so that if *financial leverage* rises, capital / equity costs will also increase linearly, because shareholders are exposed to greater risk.

Furthermore Modigliani-Miller theory with the assumption of a corporate tax states that the value of the company will increase in line with the increasing use of debt. Debt interest costs can reduce taxes so that the greater the portion of the company's revenue that is part of investors. Modigliani-Miller concluded that the use of high debt will increase the value of the company so that the capital structure has a positive influence on the value of the company. Capital structure that can improve company profitability shows that the company's financial performance is good. This can provide benefits for the company because it can attract and increase the confidence of investors to continue to invest their capital in the company. The results of this study are in line with the opinion of Sartono in Stein (2012: 3) which states that the greater the use of debt in the capital structure, the more ROE increases. Similar results were stated by Kusumajaya (2011), Hamidi and Binangkit (2014) which stated that DER had a positive and significant effect on ROE.

The influence of the size of the board of directors on financial performance

Based on the results of the t-test showed that *Good Corporate Governance* as measured by the size of the board of directors had a negative and not significant effect on financial performance as measured by *Return on Equity* (ROE). This provides information that the large size of the board of directors (DD) will reduce the company's financial performance (ROE). The size of the board of directors can have a positive or negative impact. The positive impact, the distribution on the other hand can provide alternative solutions to an increasingly diverse problem than homogeneous board members. While the negative impact, the greater the distribution of members of the council can cause more conflict (Kusumastuti, 2013).

Based on the distribution of the board of directors, the sample company has a negative impact on the company's financial performance. This can be proven from the size of the board of directors of a number of sample companies that are quite large, even reaching 11 people, namely Gajah Tunggal, Tbk from various sectors of the automotive and component sub-sector industries. According to Yenmack (1996) in Sunarwan (2014), the loss in the number of large councils is related to two things, namely: increased problems in terms of communication and coordination with increasing results of the number of councils and a decrease in the ability of councils to control management, leading to agency problems that arises from the separation between agent (management) and principal (owner). With the large number of boards of directors it certainly can lead to the problem of agency conflict (*agency conflict*) where the board of directors can be in a condition: (a) choosing an investment that best suits his ability or the most profitable for the company; (b) maintain a stable level of corporate income while shareholders prefer *earnings retention*; (c) taking a safe

position for themselves in making investment decisions; (d) pay attention to the *cash flow* company'sin line with the time of their assignment; and or (e) there is a gap between interests as shareholders and as managers (managers). In addition, the imbalance in mastery of information between management as an information maker and its users can certainly lead to information asymmetry that can cause serious problems for company performance.

The results of this study are in line with Mulyadi and Wicaksono (2014) and Sunarwan (2015), which suggest that there is a negative and insignificant influence between the size of the board of directors and the company's financial performance (ROE), which means that increasing the size of the board of directors will decrease financial performance company. Different research results were conducted by Febriyanto and Kusumastuti (2013) and Yudha et al (2014) who stated that the board of directors had a significant effect on company performance. The board of directors has a very vital role in a company where the directors are the authorities and are fully responsible for all matters for the benefit of the company, in accordance with the aims and objectives of the company and represent the company, both inside and outside the court in accordance with the provisions of the articles of association and General Meeting of Shareholders. According to Kusumawati (2005) in Febriyanto (2013), the more boards of directors in a company will provide a form of supervision of the company's performance which is getting better, with good and controlled company performance, it will produce good profitability and will later be able to increase prices company stock and company performance will also increase.

The influence of the size of the board of commissioners on financial performance

Based on the results of the t-test showed that *Good Corporate Governance* as measured by the size of the board of commissioners had a negative and not significant effect on financial performance as measured by *Return on Equity* (ROE). This provides information that the size of the board of commissioners (DK) will reduce the company's financial performance (ROE). The board of commissioners has the duty to supervise and provide guidance and direction to the company manager or the company management. In this case, management is responsible for improving the efficiency and competitiveness of the company so as to improve company performance, while the board of commissioners is responsible for overseeing management in these activities (FCGI, 2009). In fact the existence of a board of commissioners in a company can increase or decrease company performance. There is a view that greater independence of the board of commissioners is better for improving company performance because they have a wider range of abilities in helping better decisions be made. However, on the other hand there is a possibility that too many members of the board of commissioners can also cause coordination to be difficult and problematic especially in making decisions. This can also be influenced by *agency conflict* as well as the size of the board of directors which is quite large in the company.

The results of this study indicate that there is a negative and not significant relationship between the size of the board of commissioners on the company's financial performance (ROE). This can be proven by the presence of sample company data which has a board size of 15 commissioners in one company namely Mandom Indonesia, Tbk from the industrial sector of consumer goods, cosmetics and household goods. The results of the study are in line with Hardikasari (2011) in Yuniarti (2014) which states that research on the size of the board of commissioners on company performance has mixed results. In his research, arguments from Yenmack (1996), Sundgren and Wells (1998), and Jensen (1993) stated that the more personnel on the board of commissioners could result in a worse performance of the company. The more members of the board of commissioners, the more difficult the board of commissioners to carry out their duties, including difficulties in communication and coordination between members of the board of commissioners. But it is not absolute that the number of board members always worsen the company, the presence of board members who have good quality will actually remind the company's performance.

These findings are also in line with research conducted by Yuniarti and Wicaksono (2014), and Tertius (2015) which states that the size of the board of commissioners does not have a significant effect on the company's financial performance. However, the results of this study conflict with Mulyadi and Widagdo (2014) which essentially states the opposite. The greater the size of the board of commissioners in a company, the better the implementation of *Good Corporate Governance* in the company, so that in the end it can improve company performance.

Effect of audit committee size on financial performance

Based on the results of the t-test shows that *Good Corporate Governance* as measured by the size of the audit committee has a positive and significant effect on financial performance as measured by *Return on Equity* (ROE). This provides information that the greater the size of the audit committee (KA) will improve the company's financial performance (ROE), and vice versa. The existence of audit committees in companies that *go public is* very positively responded by various parties, including the Government, the Capital Market Supervisory Agency (Bapepam), the Jakarta Stock Exchange (JSX), investors, accountants and so on. With the

existence of an audit committee in the company, it is ensured that there is a professional supervision that can be trusted for its reliability in ensuring the disclosure of financial statements that will increase the *value* company'sand company credibility in the eyes of investors both for internal and external interests of the company. Their presence in the company is accepted as part of the mechanism of *good corporate governance* . Guidelines *Good Corporate Governance* issued by the National Committee on Corporate Governance Policy (KNKCG), the audit committee processes prospective external auditors including their service fees to be submitted to the board of commissioners. The number of members of the audit committee must be adjusted to the complexity of the company while paying attention to the effectiveness in decision making.

For companies whose shares are listed on a stock exchange, state companies, regional companies, companies that collect and manage public funds, companies whose products or services are used by the wider community, and companies that have a broad impact on environmental sustainability, must at least form an audit committee . In addition, the audit committee is chaired by an independent commissioner and its members can consist of Commissioners and / or professional actors from outside the company. One member has a background and ability in accounting and or finance (Wicaksono, 2014). Based on Circular from the Directors of PT. Jakarta Stock Exchange No. SE008 / BEJ / 12-2001 dated 7 December 2001 in Yuniarti (2014) regarding audit committee membership in public companies, it was stated that the number of audit committee members was at least 3 (three) people, including the chair of the audit committee. Apart from that, the membership of the audit committee that was formed and chosen based on high integrity, ability, knowledge, and experience in accordance with their education, and able to communicate well can certainly ensure the implementation of their duties in providing opinions and reviewing information in the company , so that it can help in improving company performance.

The results of this study are in line with research conducted by Trisnantari (2010) and Mulyadi (2013), who suggest that the number of audit committees statistically influences company performance.

Effect of managerial ownership on financial performance

Based on the results of the t-test shows that *Good Corporate Governance* as measured by managerial ownership has a negative and not significant effect on financial performance as measured by *Return on Equity* (ROE). This provides information that a large managerial ownership (KM) will reduce the company's financial performance (ROE). Managerial ownership in this industrial sector company is quite low from 2013 - 2015. The low managerial ownership in this sector company is due to several companies in 2013-2015 not giving share ownership to their management. Thus, aligning the interests of shareholders and agents can not be realized. Jensen & Meckling (1976) in Tertius (2015), argues that managerial ownership at a low level causes managers to perform less optimally in maximizing shareholder wealth by increasing company performance with ROE, and trying to divert company resources for their own interests. This is because, managers do not fully get the benefits, but they also bear the costs incurred to increase company profits. Conversely, if managerial ownership is greater, management will try to maximize shareholder wealth.

The results of this study are in line with the research of Widagdo (2014) and Tertius (2015) which states that managerial ownership has no effect on the company's financial performance. However, the results of this study differ from Febriyanto (203), Yudha et al (2014) which states that managerial ownership has a positive and significant effect on the company's financial performance. According to Bhagat & Molton (2007) in Yuniarti (2014), empirical studies have stated that there is a strong influence between performance and companies in which the director has a shareholding. Therefore, a company where the director owns shares is believed to be able to work on the company's performance better. With the ownership of shares by the management, the management will actively participate in decision making. They will benefit directly from the decisions they make, but will also run the risk directly if the decision is wrong. Company managers will make decisions in accordance with the interests of the company by disclosing the widest possible social information in order to improve the *image* company's. Thus, management will not act unilaterally which will harm the company so that it will reduce supervision and *agency costs*.

The influence of institutional ownership on financial performance

Based on the results of the t-test shows that *Good Corporate Governance* as measured by institutional ownership has a positive and significant effect on financial performance as measured by *Return on Equity* (ROE). This provides information that the greater the size of institutional ownership (IC) will increase the company's financial performance (ROE), and vice versa. Institutional ownership can increase control over management and reduce opportunities for possible fraud (Murwaningsari, 2009). Institution is an institution that has a great interest in the investments made. Institutions will professionally monitor the progress of their investments in order to make the profits they want to achieve. The monitoring carried out by this institution will pressure management not to deviate. The institutional monitoring method will effectively minimize fraud

actions that occur in the company, so that the company's performance remains optimal and the company's value will remain good in the eyes of investors.

According to Jensen and Meckling (1976) in Yuniarti (2014), institutional ownership has a very important role in minimizing agency conflicts that occur between managers and shareholders. The existence of institutional investors is considered capable of being an effective monitoring mechanism in every decision taken by managers. This is because institutional investors are involved in strategic decision making so it is not easy to believe in earnings manipulation. Institutional ownership generally acts as a party that monitors the company. Companies with large institutional ownership (more than 5%) indicate their ability to monitor management. The greater the institutional ownership, the more efficient the use of company capital. Thus the existence of a large institutional ownership acts as a prevention against waste by management (Noor Laila, 2011 in Yuniarti, 2014). Each company will have institutional ownership to help regulate company turnover. The nature of *agency problems* is directly related to the ownership structure. The scattered ownership structure will not provide incentives for owners to monitor management. This is because the owners bear their own*monitoring costs*so that all owners will enjoy the benefits.

Institutional investors have a role in providing reliable mechanisms for presenting information to investors. This role is due to institutional investors who are *sophisticated* and have better control over individual investors. Through institutional ownership, the effectiveness of management of company resources by management can be known from information generated through market reactions to earnings announcements. The percentage of shares owned by an institution can affect the process of preparing financial statements that does not rule out the possibility of actualization in accordance with the interests of management (Putri Wulan Siswi, 2012 in Yuniarti, 2014). The results of this study are in line with research by Febriyanto (2013) and Yuniarti (2014), which suggests that the higher *Good Corporate Governance* (institutional ownership), the higher the company's performance, and vice versa.

VI. Conclusion

The results of the study found that *Debt to Equity Ratio* (DER) has a positive and significant effect on financial performance as measured by *Return on Equity* (ROE). The size of the board of directors has a negative and not significant effect on the company's financial performance as measured by *Return on Equity* (ROE). The size of the board of commissioners has a negative and not significant effect on the company's financial performance as measured by *Return on Equity* (ROE). The size of the audit committee has a positive and significant effect on the company's financial performance as measured by *Return on Equity* (ROE). Managerial ownership has a negative and not significant effect on the company's financial performance as measured by *Return on Equity* (ROE). Institutional ownership has a positive and significant impact on a company's financial performance as measured by *Return on Equity* (ROE).Based on the results of the F-test, it shows that simultaneously the capital structure measured by *Debt to Equity Ratio* (DER) and *Good Corporate Governance* as measured by the size of the board of directors, the size of the board of commissioners, the size of the audit committee, managerial ownership, and institutional ownership have a positive effect and significant to the company's financial performance as measured by *Return on Equity* (ROE). In general capital structure andmechanism *Good Corporate Governance* has a significant contribution to the financial performance of manufacturing companies on the Indonesia Stock Exchange in the 2013-2015 period amounting to 57.50% while the remaining 42.50% is influenced by other factors.

Based on the research conclusions, the advice given from this study is that further research is recommended to use samples or different types of company sectors as a comparison, such as the agricultural sector, the mining sector, the property and *real estate*sector, the infrastructure sector, utilities and transportation, the financial sector, and or the trade, service and investment sector. Future studies, the study period should be more than 3 years so that research results are more accurate and can predict research results in the long run. In addition, in order to know whether there is an increase in corporate awareness in Indonesia about the importance of capital structure and the implementation of *Good Corporate Governance* in the company. Future studies are suggested to add or use new independent variables, for example capital structure variables using *debt to asset ratio* (DAR), *Short Term Debt* (STD), and / or *Long Term Debt* (LTD). Forvariables *corporate governance* can add or replace the previous variables such as the composition of independent commissioners, the number of board of commissioners 'meetings, the number of board of directors' meetings, the number of audit committee meetings, the quality of Public Accounting Firms, foreign ownership, and or public ownership. Whereas the dependent variable can use *return on assets* (ROA), *Economic Value Added* (EVA), Tobin's Q or other company performance ratios.

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