



JURNAL

Riset Akuntansi dan Keuangan Indonesia

URL : <http://journals.ums.ac.id/index.php/reaksi/index>



# COUNTRY GOVERNANCE AND FINANCIAL LEVERAGE WITH INSTITUTIONAL OWNERSHIP AS MODERATING VARIABLES

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## Keywords:

country governance, institutional ownershi, financial leverage

## ABSTRACT

This study aims to determine the effect of country governance and the components of country governance (voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, law, and control of corruption) on financial leverage, as well as the moderating effect of institutional ownership on the influence of country governance and the components of country governance (voice and accountability, political stability and absence violence, government effectiveness, regulatory quality, law, and control of corruption) on financial leverage. This study uses a sampling method using purposive sampling. The analysis method is multiple linear regression and moderated regression analysis. The number of samples in this study was 1853 observations on manufacturing companies listed on the stock exchanges of Indonesia, Malaysia, Thailand, Singapore, and the Philippines. The results show that country governance, political stability and absence aof violence, government effectiveness, regulatory quality, law, and control of corruption have a significantly negative effect on financial leverage, while voice and accountability have a significant positive on financial leverage. Institutional ownership weakens the negative influence of country governance, political stability and absence of violence, government effectiveness, regulatory quality, law, and control of corruption on financial leverage, while institutional ownership strengthens the positive effect of voice and accountability on financial leverage. In addition, tangible assets, profitability, interest rates, and GDP growth also affect financial leverage.

## INTRODUCTION

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Funding decisions are related to determining the composition of internal and external funding sources taken by the company to carry out its operational activities. One of the funding policies that comes from external funding is debt. The funding decision using debt is called financial leverage (Sudana, 2015). Financial leverage can be measured by the composition of total debt to total assets (debt ratio). The higher the financial leverage, the higher the company's use of debt in funding decisions. This can increase the financial risk of the company. Financial leverage can show how much influence the company's debt has on asset management (Brigham & Houston, 2019). The level of financial leverage can be influenced by several factors, one of which is country governance.

Matemilola et al (2019) found that the higher the quality of country governance in a country, the higher the leverage of the company. This shows that the company's financial leverage is influenced by, among others, country governance. Country governance is the quality of government governance related to all state resources for the welfare of society (World Bank, 1992). Country governance is a factor that needs to be considered in making company decisions because country governance can affect the company's business activities and even all aspects that exist in the country (Scott, 2001). Country governance can be measured using worldwide governance indicators (WGI). The WGI is a collection of research data that summarizes views on the quality of governance in each country (World Bank, 1992). WGI consists of six components of government, namely voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption.

Country governance can affect corporate debt in a country. Companies located in countries with good country governance values tend to use higher debt than companies in countries with poor country governance values (Matemimola et al, 2019). Good country governance has strong law enforcement and can make companies more committed to contractual agreements. In addition, good country governance can create an effective business environment, thereby increasing creditor

protection. The higher the creditor protection, the higher the willingness of creditors to provide loans to companies (debtors). This encourages companies to increase debt in order to gain tax protection benefits from interest. The higher the company's use of debt, the higher the benefits obtained from tax protection from interest. According to Modigliani and Miller (1963:433), higher leverage can increase the company's interest expense so that it can reduce the company's income tax. As long as the cost of debt can provide higher benefits than the financial risks that arise, the company will continue to increase leverage.

Institutional ownership can moderate the effect of country governance on financial leverage. Institutional ownership is ownership of company shares by institutions or institutions such as insurance companies, banks, investment companies, and others (Abobakr & Elgizry, 2016). The higher the institutional ownership, it will increase the monitoring of a company (Burns et al, 2010). This will reduce agency problems and the probability of bankruptcy of a company. Therefore, companies will take advantage of this to increase debt, so higher institutional ownership in a company will strengthen the positive influence of country governance on financial leverage.

Several studies on the influence of country governance and leverage have been conducted before, including Matemilola et al (2019) showing that country governance has a positive effect on corporate leverage. Based on this background, the authors are interested in conducting research on the effect of country governance on financial leverage with institutional ownership as a moderating variable in companies in ASEAN-5 countries with the formulation of the problem: is there an effect of country governance on financial leverage in manufacturing companies in ASEAN-5? and does institutional ownership moderate the effect of country governance on financial leverage in manufacturing companies in ASEAN-5?

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## LITERATURE REVIEW

### Financial Leverage

Financial leverage is the company's funding policy in using debt to finance the company's operations and investments. Financial leverage

refers to how much the company relies on debt (Ross et al, 2015). The higher the financial leverage, the higher the company uses debt in its funding decisions. Financial leverage consists of financial structure and capital structure (Sudana, 2015). The financial structure shows how the company spends its assets using current debt, long-term debt and capital, while the capital structure is part of the financial structure that only concerns long-term spending, such as long-term debt, special shares, common stock and retained earnings.

### Country governance and Financial Leverage

Country governance is the quality of government governance related to all state resources for the welfare of society (World Bank, 1992). Country governance is a factor that needs to be considered in making company decisions, because country governance can affect the company's business activities and even all aspects that exist in the country (Scott, 2001). The better country governance in a country, the stronger law enforcement in that country (Matemimola et al, 2019). Strong law enforcement in a country that can be seen from the components of country governance creates strong institutions and an effective business environment so that companies are more committed to contractual agreements, while weak law enforcement is more difficult for companies to commit to agreements. contract. The higher the company's commitment in the contract agreement, the higher the creditor protection. The higher the creditor protection, the higher the willingness of creditors to provide loans to companies (debtors) (La Porta et al, 1997). The higher the willingness of creditors to provide loans, it encourages companies to increase debt in order to obtain tax protection benefits from interest. The higher the company's use of debt, the higher the benefits obtained from tax protection from interest. As long as the cost of debt can provide higher benefits than the financial risks that arise, the company will continue to increase leverage (Modigliani and Miller, 1963 and Myers, 1984). Likewise, low country governance reduces loan availability because creditors fear inadequate protection, thereby reducing corporate debt (Qian and Strahan, 2007). Fan et al (2012) found that high country governance uses more debt, because high country governance encourages creditors to provide loans and lowers bankruptcy

costs, resulting in companies using more debt to benefit from tax protection from debt interest. Thus, country governance has a positive effect on financial leverage.

**H1:** *Country governance* berpengaruh positif terhadap *leverage* keuangan

In this study, the quality of country governance is proxied and measured using six world governance indicators (WGI) indices sourced from the World Bank, which are as follows:

#### 1. Voice and accountability (VA)

Voice and accountability, shows the extent of citizen involvement in overseeing the running of government, as well as transparency of policies and regulations, freedom of expression, and public participation in general elections (Kaufmann et al, 2009). The higher the level of voice and accountability in a country, the supervision of the government in a country will increase. The higher government oversight in a country can increase the commitment of companies to contractual agreements. The higher the company's commitment in the contract agreement, the higher the creditor protection (Matemimola et al, 2019). The higher creditor protection can increase the willingness of creditors to provide loans (La Porta et al, 1997). The higher the willingness of creditors to provide loans, it encourages companies to increase debt in order to obtain tax protection benefits from interest (Modigliani and Miller, 1963 and Myers, 1984). In other words, voice and accountability have a positive effect on the company's financial leverage.

**H2:** *Voice and accountability* have a positive effect on financial leverage

#### 2. Political stability and absence violence (PS)

It is a component that indicates the possibility of the government being destabilized in unconstitutional ways, including politically motivated violence and terrorism (Kaufmann et al, 2009). This indicator describes how well the government is performing in dealing with issues of political stability and can be measured by the intensity of internal conflicts, conflicts between countries, and terrorist attacks. Political stability and absence violence describes how well the government is doing in dealing with the issue of political stability. The higher the political stability

in a country, the lower the political risk. The lower the political risk in a country, it can increase the protection of creditors in a country. This will increase the willingness of creditors to provide loans (La Porta et al, 1997 and Matemimola et al, 2019). This will encourage companies to increase debt in order to gain tax protection benefits from interest (Modigliani and Miller, 1963 and Myers, 1984). In other words, political stability and absence violence have a positive effect on the company's financial leverage.

**H3:** *Political stability and absence violence* have a positive effect on financial leverage

### 3. Government effectiveness (GR)

Is a component that shows the quality of public services, the quality of civil services and the level of control of political pressure, the quality of policy formulation and implementation, as well as the credibility of the government's commitment to the policy (Kaufmann et al, 2009). The higher the government effectiveness, the better the control of political pressure in a country. This can reduce political risk in a country and can increase creditor protection. The higher the protection of creditors in a country, the greater the willingness of creditors to provide loans (La Porta et al, 1997 and Matemimola et al, 2019). This will encourage companies to increase their debt in order to gain tax protection benefits from interest (Modigliani and Miller, 1963 and Myers, 1984). In other words, government effectiveness has a positive effect on the company's financial leverage.

**H4:** *Government effectiveness* have a positive effect on financial leverage

### 4. Regulatory quality (RQ)

It is a component that shows the government's ability to formulate and implement good policies and regulations in encouraging business development (Kaufmann et al, 2009). The higher the regulatory quality in a country, the better the government's ability to implement policies. This will make companies more committed to contractual agreements. The higher the company's commitment in the contract agreement, the greater the protection of creditors, thereby increasing the willingness of creditors to provide loans (La Porta et al, 1997 and Matemimola et al, 2019). This will be

used by companies to increase debt in order to gain tax protection benefits from interest (Modigliani and Miller, 1963 and Myers, 1984). In other words, regulatory quality has a positive effect on the company's financial leverage.

**H5:** *Regulatory quality* have a positive effect on financial leverage

### 5. Rule of law (RL)

Is a component that shows the ability to draw up laws and regulations by the government of a country which aims to provide a clear legal basis and can be obeyed by citizens (Kaufmann et al, 2009). It consists of regulation of business contracts and agreements, quality of law enforcement, and property rights. The higher the level of rule of law in a country, the greater the legal protection for business activities, thereby creating a stable, fair, and predictable business environment (Kaufmann et al, 2009). This will increase the company's commitment in the contract agreement. The higher the company's commitment in contractual agreements, the greater the willingness of creditors to provide loans (La Porta et al, 1997 and Matemimola et al, 2019). The higher the willingness of creditors to provide loans, it encourages companies to increase their debt in order to benefit from tax protection from interest (Modigliani and Miller, 1963 and Myers, 1984). In other words, the rule of law has a positive effect on the company's financial leverage.

**H6:** *Rule of law* have a positive effect on financial leverage

### 6. Control of corruption (CC)

Is a component that shows the level of completion of cases and prevention of corruption in a country. The higher the control of corruption score in a country, the lower the level of corruption in that country. The lower the level of corruption in a country, the greater the effectiveness of regulatory oversight in a country (Thakur et al, 2019). The higher the effectiveness of supervision in a country, the higher the company's commitment in contractual agreements. The higher the company's commitment in contractual agreements, the greater the willingness of creditors to provide loans (La Porta et al, 1997 and Matemimola et al, 2019). This encourages companies to increase their debt in order to benefit from tax protection from interest



(Modigliani and Miller, 1963 and Myers, 1984). In other words, control of corruption has a positive effect on financial leverage

**H7:** *Control of corruption* have a positive effect on financial leverage

#### 7. Moderating effect of institutional ownership on the effect of country governance on financial leverage

Supervision will increase with the higher institutional ownership in a company, (Burns et al, 2010). This can hinder the behavior of managers to prioritize personal interests which can ultimately harm the company, so that higher monitoring in a company can reduce agency problem type 1, namely between managers and shareholders. The lower the agency problem in a company, the lower the probability of bankruptcy in a company. This will increase the protection of creditors in a company. The higher the creditor protection, the higher the willingness of creditors to provide loans (La Porta et al, 1997 and Matemimola et al, 2019). This will encourage companies to increase their debt in order to benefit from tax protection from interest (Modigliani and Miller, 1963 and Myers, 1984). In other words, higher institutional ownership in a company will strengthen the positive influence of country governance on financial leverage.

**H8:** Institutional ownership strengthens the positive influence of country governance on financial leverage

#### 8. Moderating effect of institutional ownership on the effect of voice and accountability on financial leverage

The higher the level of voice and accountability in a country, the supervision of the government in a country will increase. According to Burns et al (2010), the existence of institutional ownership in a company can increase supervision. The higher the supervision of a company in a country, it can increase the company's commitment to the contract agreement. The higher the company's commitment in the contract agreement, the higher the creditor protection. The higher creditor protection can increase the willingness of creditors to provide loans (La Porta et al, 1997 and Matemimola et al, 2019). The higher the willingness of creditors to provide loans, it encourages companies to increase debt in order to obtain tax protection benefits from interest (Modigliani and Miller, 1963 and Myers, 1984). In other words, higher institutional ownership in a

company will strengthen the positive influence of voice and accountability on financial leverage.

**H9:** Institutional ownership strengthens the positive effect of voice and accountability on financial leverage

#### 9. Moderating effect of institutional ownership on the effect of political stability and absence violence on financial leverage

The higher the political stability in a country, the lower the political risk. According to Burns et al (2016), the existence of institutional ownership in a company can increase supervision. The lower the political risk in a country and the higher the supervision in a company can increase creditor protection. The higher the creditor protection in a company, the greater the willingness of creditors to provide loans (La Porta et al, 1997 and Matemimola et al, 2019). This will encourage companies to increase debt in order to achieve the benefits of tax protection from interest (Modigliani and Miller, 1963 and Myers, 1984). In other words, higher institutional ownership in a company will strengthen the positive influence of political stability and absence of violence on financial leverage.

**H10:** Institutional ownership strengthens the positive influence of political stability and absence violence on financial leverage

#### 10. Moderating effect of institutional ownership on the effect of government effectiveness on financial leverage

The higher the government effectiveness in a country, the better the control of political pressure in a country will be. This can reduce political risk in a country. According to Burns et al (2010), the existence of institutional ownership in a company can increase supervision. The lower the political risk in a country and the higher the supervision in a company can increase creditor protection. The higher the creditor protection in a company, the greater the willingness of creditors to provide loans (La Porta et al, 1997 and Matemimola et al, 2019). This will encourage companies to increase debt (Modigliani and Miller, 1963 and Myers, 1984). In other words, higher institutional ownership in a company will strengthen the positive influence of government effectiveness on financial leverage.

**H11:** Institutional ownership strengthens the positive influence of government effectiveness on financial leverage

### 11. Moderating effect of institutional ownership on the effect of regulatory quality on financial leverage

The higher the regulatory quality in a country, the better the government's ability to implement policies. This will make companies more committed to contractual agreements. According to Burns et al (2010), the existence of institutional ownership in a company can increase supervision, so that it will also increase the company's commitment to the contract. The higher the company's commitment in the contract agreement, the greater the protection of creditors. This will increase the willingness of creditors to provide loans (La Porta et al, 1997 and Matemimola et al, 2019). The higher the willingness of creditors to provide loans, it encourages companies to increase debt (Modigliani and Miller, 1963 and Myers, 1984). In other words, higher institutional ownership in a company will strengthen the positive influence of regulatory quality on financial leverage.

**H12:** Institutional ownership strengthens the positive influence of regulatory quality on financial leverage

### 12. Moderating effect of institutional ownership on the influence of the rule of law on financial leverage

The higher the rule of law in a country, the greater the legal protection for business activities, thereby creating a stable, fair, and predictable business environment (Kaufmann et al, 2009). This will increase the company's commitment in the contract agreement. According to Burns et al (2010) the existence of institutional ownership in a company can increase supervision, so that it will also increase the company's commitment to contract agreements. The higher the company's commitment in contractual agreements, the greater the willingness of creditors to provide loans (La Porta et al, 1997 and Matemimola et al, 2019). The higher the willingness of creditors to provide loans, it encourages companies to increase their debt in order to benefit from tax protection from interest (Modigliani and Miller, 1963 and Myers, 1984). In other words, higher institutional ownership in a company will strengthen the positive influence of the rule of law on financial leverage.

**H13:** Institutional ownership strengthens the positive influence of the rule of law on financial leverage

### 13. Moderating effect of institutional ownership on the effect of control of corruption on financial leverage

The higher the control of corruption in a country, the lower the level of corruption in that country. The lower the level of corruption in a country, the greater the effectiveness of regulatory oversight in a country (Thakur et al, 2019). The higher the effectiveness of supervision in a country, the higher the company's commitment in contractual agreements. According to Burns et al (2010) the existence of institutional ownership in a company can increase supervision. This will increase the company's commitment in the contract agreement. The higher the company's commitment in contractual agreements, the greater the willingness of creditors to provide loans (La Porta et al, 1997 and Matemimola et al, 2019). The higher the willingness of creditors to provide loans, this will encourage companies to increase their debt. This is in order to benefit from the tax protection of interest (Modigliani and Miller, 1963 and Myers, 1984). In other words, higher institutional ownership in a company will strengthen the positive influence of control of corruption on financial leverage.

**H14:** Institutional ownership strengthens the positive effect of control of corruption on financial leverage.

### Control variables and financial leverage

In addition to country governance, financial leverage is also influenced by several other factors, such as the company's internal consisting of tangible assets and profitability, and the company's external consisting of economic growth and interest rates. Tangible assets are tangible assets that are owned by the company or exist physically such as land, buildings, machinery, vehicles, and equipment. Tangible assets have an important role in the company's funding decisions, because they can be used as collateral for the company's debt. The size of the asset tangibility is measured using the ratio of fixed assets and total assets. The greater the number of fixed assets that are pledged to creditors, the greater the company will get a loan. This can increase security for creditors because companies that have high guarantees show a better company's ability to pay their debts, on the other hand, if the lower the number of fixed assets pledged to

creditors, the lower the company gets loans (Ellili and Farouk, 2011; Thomas, 2011). W. Hall, 2011).

Profitability is the company's ability to generate profits from income related to assets, capital or sales in a certain period (Block, 2015:58). In this study, profitability is measured using return on assets (ROA) which shows the company's ability to use all assets to generate after-tax profits (Sudana, 2011:22). This ratio can evaluate the effectiveness and efficiency of the company's management in using the company's overall assets. High profitability can reduce the use of corporate debt and can increase the use of the company's internal funding sources compared to external funding sources, on the contrary if low profitability can increase the company's debt and can trigger increased use of external funding sources (Wessels, 1988; Rajan and Zingales, 1995; Serghiescu). and Ligi, 2014).

The interest rate is an expense that is realized in the form of a certain percentage of loan funds in a country within a certain period of time. The interest rate is determined by the central bank in a country which will be used as a guide for all banks in a country to determine the amount of loan interest and deposit interest. This study uses interest rates sourced from the World Bank. The higher interest rates in a country, increasing the debt burden in a company which can directly increase the risk of default. This makes the company tend not to increase its debt (Jong et al, 2008).

Gross domestic product (GDP) growth is the economic growth in a country. Gross domestic product is the total value of goods and services produced by all business units in a country in a period. There are 2 kinds of gross domestic product, namely real and nominal. Real gross domestic product is measured using a constant price, while nominal gross domestic product is measured using the current price for the period. This study uses the growth of gross domestic product as measured by the percentage of real GDP growth obtained from the World Bank with a lag variable (t-1) because the measurement is carried out annually, so it can only affect performance in the next period. The greater the GDP growth rate, the better the economic prospects, thus encouraging companies to use more debt (Cheng and Shiu, 2007). This is because loan rates are generally low, company operations run smoothly and consumer purchasing power is high, which has an impact on increasing sales, which

encourages an increase in the need for financing from debt (Krainer, 1977). In other words, GDP growth has a positive effect on financial leverage according to research by Cheng and Shiu (2007) and Jong et al (2008).

## RESEARCH METHOD

### Data and samples

The data collection technique used in this research is documentation. The sample of this research is manufacturing companies listed on the Indonesia Stock Exchange, Malaysia, Singapore, Thailand and the Philippines from 2016 to 2019 which consists of 1853 firm-year data. Hypothesis testing to determine the relationship between the independent variable and the dependent variable using OLS and moderated regression analysis (MRA). The sample of this study was determined by using purposive sampling method, namely non-probability sampling which selects the object of research based on the limits that have been determined by the researcher. The limitations used in this study are:

- Manufacturing companies listed on the Indonesia Stock Exchange, Malaysia Stock Exchange, Singapore Stock Exchange, Thailand Stock Exchange, and the Philippines Stock Exchange in 2016-2019.
- Companies that publish financial reports in 2016-2019, and have complete variable data.
- Companies that have details of company shareholders in 2016-2019.
- The financial statements ended on December 31.

### Measurement

- Financial leverage**, is the company's funding policy in using debt to finance the company's operations and investments and can be measured by:

$$LEV_{ijt} = \frac{TD_{ijt}}{TA_{ijt}} \quad (1)$$

where:

$LEV_{ijt}$  : The financial leverage of firm i in country j in year t

$TD_{ijt}$  : Total debt of firm i in country j in year t

$TA_{ijt}$  : Total assets of company i in country j in year t

This ratio shows how much debt is used to finance the company's assets.

- b. **Country governance**, Is the quality of government governance related to all state resources for the welfare of society (World Bank, 1992). The quality of country governance can be measured using the world governance indicators (WGI) index sourced from the World Bank. Worldwide Governance Indicators (WGI) is a collection of research data that summarizes views on the quality of governance in each country (World Bank, 1992). The WGI score is based on the percentile ranking among all countries listed on the World Bank between 0 (lowest) to 100 (highest). This study uses the average percentile ranking of the six dimensions with a variable lag (t-1) because the score is published at the end of each period so that it can only affect performance in the next period, which is described in the following formula:

$$CG_{jt-1} = \frac{VA_{jt-1} + PS_{jt-1} + GE_{jt-1} + RQ_{jt-1} + RL_{jt-1} + CC_{jt-1}}{6} \quad (2)$$

Where :

$CG_{jt-1}$  : Country governance of country j in period t-1.

$VA_{jt-1}$  : *Voice and accountability percentile ranking* of country j in period t-1.

$PS_{jt-1}$  : *Political stability percentile ranking* of country j in period t-1.

$GR_{jt-1}$  : *Government effectiveness percentile ranking* of country j in period t-1.

$RQ_{jt-1}$  : *Regulatory quality percentile ranking* of country j in period t-1.

$RL_{jt-1}$  : *Rule of law percentile ranking* of country j in period t-1.

$CC_{jt-1}$  : *Control of corruption percentile ranking* of country j in period t-1.

- c. **Voice and accountability**, is a component that shows the extent to which citizens are involved in overseeing the running of the government, as well as transparency of policies and regulations, freedom of expression, and public participation in general elections (Kaufmann et al, 2009). Voice and accountability are obtained from World Bank sources.
- d. **Political stability and absence violence**, is a components that indicate the possibility of a government destabilizing in unconstitutional ways, include politically motivated violence

and terrorism (Kaufmann et al, 2009). Political stability and absence violence was obtained from the World Bank source.

- e. **Government effectiveness** Components that show the quality of public services, the quality of civil services and the level of control of political pressure, the quality of policy formulation and implementation, as well as the credibility of the government's commitment to these policies (Kaufmann et al, 2009). Government effectiveness is obtained from World Bank sources.
- f. **Regulatory quality**, is a component that shows the government's ability to formulate and implement good policies and regulations in encouraging business development (Kaufmann et al, 2009). Regulatory quality is obtained from World Bank sources.
- g. **Rule of law**, is a component that shows the ability to draw up laws and regulations by the government of a country which aims to provide a clear legal basis and can be obeyed by citizens (Kaufmann et al, 2009). The rule of law is obtained from World Bank sources.
- h. **Control of corruption**, is a component that shows the level of completion of cases and prevention of corruption in a country. Control of corruption is obtained from World Bank sources.
- i. **Institutional ownership** is ownership of company shares by institutions or institutions such as insurance companies, banks, investment companies, and others (Abobakr & Elgizry, 2016). The measurement of the institutional ownership variable uses the percentage of share ownership by using the proportion of the number of shares owned and the number of shares outstanding. Institutional ownership is measured by the following formula:

$$IOWN_{ijt} = \frac{TSI_{ijt}}{TSB_{ijt}} \quad (3)$$

where:

$IOWN_{ijt}$  : Institutional ownership of company i in country j year t

$TSI_{ijt}$  : Total institutional share ownership of company i in country j in year t

$TSB_{ijt}$  : Total outstanding shares of company i year t



**Analysis model****Model OLS**

$$LEV_{ijt} = \alpha_0 + \alpha_n CGC_{jt-1} + \sum \alpha_x MIC_{ijt} + \sum \alpha_y MAC_{jt-1} + \epsilon_{ijt}$$

(consisting of GDP growth and interest rates)

$\beta$  : regression coefficient

$\epsilon_{ijt}$  : Error

**Model MRA**

$$LEV_{ijt} = \beta_0 + \beta_n CGC_{jt-1} + \beta_m IOWN_{ijt} + \beta_p CGC_{jt-1} * IOWN_{ijt} + \sum \beta_x MIC_{ijt} + \sum \beta_y MAC_{jt-1} + \epsilon_{ijt}$$

Where:

$LEV_{ijt}$  : The financial leverage of company i in country j year t

$CGC_{jt-1}$  : Country governance & Component CG country j in year t-1

$IOWN_{ijt}$  : Institutional ownership of company i in country j year t

$MIC_{ijt}$  : Microeconomic or company internal control variable i country j year t (consisting of tangible assets and profitability)

$MAC_{jt-1}$  : Macroeconomic or external control variables company i country j year t-1

**RESULTS AND DISCUSSION****Statistical Description**

Table 1 shows that the financial leverage variable has a value of 0.0067 and a maximum value of 0.9699. On average, manufacturing companies in ASEAN-5 finance their assets with debt of 37.64% or less than 50%. Country governance in manufacturing companies in ASEAN-5 has an average value of 0.5908. The higher the resulting country governance score, the better the quality of country governance. Singapore and Malaysia have fairly good country governance scores of 71.26%, while Indonesia, Thailand, and the Philippines have low country governance scores of 43.59%. Voice and accountability in manufacturing companies in ASEAN-5 have an average value of 0.3802.

**Table 1. Statistical Description**

Variable	N	Minimum	Maximum	Mean	Std. Deviation
LEV	1853	0.0067	0.9599	0.3764	0.1953
CG	1853	0.3976	0.8935	0.5908	0.1683
VA	1853	0.2020	0.5370	0.3802	0.1036
PS	1853	0.0925	0.9905	0.4803	0.2878
GR	1853	0.4519	1.0000	0.7363	0.1620
RQ	1853	0.4664	1.0000	0.7080	0.1714
RL	1853	0.3414	0.9712	0.6420	0.1940
CC	1853	0.3414	0.9904	0.5977	0.2072
IOWN	1853	0.0000	1.0000	0.5746	0.2701
TA	1853	0.0000	0.9858	0.4744	0.1968
ROA	1853	-0.2051	0.2448	0.0339	0.0614
IR	1853	0.0080	0.0922	0.0408	0.2265
GDP	1853	0.0299	0.0715	0.0455	0.0094

Source: SPSS

There is no significant difference in voice and accountability scores in each ASEAN country. Singapore and Malaysia as the countries with the highest country governance scores had a voice and accountability score of 37.84%, while Indonesia, Thailand, and the Philippines had a score of 38.26%. Political stability and absence violence in manufacturing companies in ASEAN-5 has an average value of 0.4803.

There are significant differences in political stability and absence scores in each ASEAN country. Singapore and Malaysia, as countries with the highest country governance scores, had a political stability and absence score of 68.78%, much higher than Indonesia, Thailand, and the Philippines, which had a score of 21.67%. Government effectiveness in manufacturing companies in ASEAN-5 has an average value of 0.7363. A government effectiveness

score in ASEAN-5 above 50% indicates the quality of public services, the quality of civil services and the level of control from political pressure, the quality of policy formulation and implementation, and the credibility of the government's commitment to policies is quite good. There are significant differences in government effectiveness scores in each ASEAN country. Singapore and Malaysia as countries with the highest country governance scores have a government effectiveness score of 85.26%, much higher than Indonesia, Thailand, and the Philippines, which have scores of 58.90%. Regulatory quality in manufacturing companies in ASEAN-5 has an average value of 0.7080. The regulatory quality score in ASEAN-5 above 50% indicates that the government's ability is quite good in formulating and implementing good policies and regulations in encouraging business development.

There are significant differences in the regulatory quality scores in each ASEAN country, Singapore and Malaysia as the countries with the highest country governance scores, which have a regulatory quality score of 83.33%, much higher than Indonesia, Thailand, and the Philippines, which have a score of 54.86%. The rule of law in manufacturing companies in ASEAN-5 has an average value of 0.6420. A rule of law score in ASEAN-5 above 50% indicates the ability to draw up laws and regulations by the government of a country which aims to provide a clear legal basis and can be obeyed by citizens quite well. There are significant differences in the rule of law scores in each ASEAN country. Singapore and Malaysia as countries with the highest country governance scores have a rule of law score of 78.44%, much higher than the countries of Indonesia, Thailand, and the Philippines which have a score of 46.09%. Control of corruption in manufacturing companies in ASEAN-5 has an average value of 0.5977. The control of corruption score in ASEAN-5 is above 50% indicating that the level of case settlement and prevention of corruption in a country is quite good. There are significant differences in the control of corruption scores in each ASEAN country. Singapore and Malaysia, as countries with the highest country governance scores, had a control of corruption score of 73.93%, much higher than

Indonesia, Thailand and the Philippines, which had a score of 41.77%.

Institutional ownership variable shows that the average share ownership of companies by institutions in ASEAN-5 countries is 57.46%. The average tangible assets owned by manufacturing companies in ASEAN-5 countries is 47.44%. The higher the presentation of tangible assets, the higher the assets that can be used as collateral to obtain loans. Table 1 also shows that the average profitability of manufacturing companies in ASEAN-5 countries is 3.39%. The average benchmark interest rate in ASEAN-5 countries is 4.08%. The GDP growth variable has the lowest value of 0.0299 and the maximum value of 0.0715. The average GDP growth in ASEAN-5 countries during the observation period was 4.55%.

### Analysis

Table 2 shows the results of multiple linear regression analysis (OLS) in model 1 which is a model that uses country governance (CG) scores as an independent variable to measure the effect of country governance (CG) on financial leverage, while models 2 to 7 are models that use the country component. governance (CG), which consists of voice and accountability (VA), political stability and absence violence (PS), government effectiveness (GR), regulatory quality (RQ), rule of law (RL), control of corruption (CC) to measure the effect of voice and accountability (VA), political stability and absence violence (PS), government effectiveness (GR), regulatory quality (RQ), rule of law (RL), control of corruption (CC) on financial leverage. Table 3 shows the results of moderated regression analysis (MRA) in model 8 which is a model with a moderating variable that measures the moderating effect of institutional ownership (IOWN) from the influence of country governance (CG), while models 9 to 14 are models with moderating variables that measure moderating effect of institutional ownership (IOWN) from the influence of voice and accountability (VA), political stability and absence violence (PS), government effectiveness (GR), regulatory quality (RQ), rule of law (RL), control of corruption (CC) to financial leverage. The following are the results and discussion of the research:

Table 2. The Effect of Country Governance on Financial Leverage in ASEAN-5

Variable	Model 1					Model 2								
	1.a	1.b	2.a	2.b	3.a	3.b	4.a	4.b	5.a	5.b	6.a	6.b	7.a	7.b
(Constant)	0.404*** (0.000)	0.452*** (0.000)	0.280*** (0.000)	0.349*** (0.000)	0.385*** (0.000)	0.417*** (0.000)	0.451*** (0.000)	0.531*** (0.000)	0.439*** (0.000)	0.490*** (0.000)	0.427*** (0.000)	0.500*** (0.000)	0.392*** (0.000)	0.435*** (0.000)
CG	-0.048* (0.078)	-0.078*** (0.008)	-	-	-	-	-	-	-	-	-	-	-	-
VA	-	-	0.253*** (0.000)	0.138** (0.032)	-	-	-	-	-	-	-	-	-	-
PS	-	-	-	-	-0.018 (0.265)	-0.039** (0.019)	-	-	-	-	-	-	-	-
GR	-	-	-	-	-	-	-0.102*** (0.000)	-0.131*** (0.000)	-	-	-	-	-	-
RQ	-	-	-	-	-	-	-	-	-0.089*** (0.001)	-0.099*** (0.002)	-	-	-	-
RL	-	-	-	-	-	-	-	-	-	-	-0.078*** (0.001)	-0.104*** (0.000)	-	-
CC	-	-	-	-	-	-	-	-	-	-	-	-	-0.026 (0.235)	-
TA	-	0.027 (0.236)	-	0.049** (0.031)	-	0.029 (0.211)	-	0.022 (0.326)	-	0.025 (0.270)	-	0.022 (0.331)	-	0.029 (0.200)
ROA	-	-0.806*** (0.000)	-	-0.757*** (0.000)	-	-0.802*** (0.000)	-	-0.825*** (0.000)	-	-0.812*** (0.000)	-	-0.824*** (0.000)	-	-0.800*** (0.000)
INTER-EST	-	1.318*** (0.000)	-	0.967*** (0.001)	-	1.362*** (0.000)	-	1.097*** (0.000)	-	1.146*** (0.000)	-	1.139*** (0.000)	-	1.349*** (0.000)
GDP	-	-1.506*** (0.004)	-	-1.361*** (0.008)	-	-1.402*** (0.006)	-	-1.888*** (0.000)	-	-1.644*** (0.002)	-	-1.878*** (0.000)	-	-1.481*** (0.000)
R <sup>2</sup>	0.002	0.092	0.018	0.091	0.001	0.091	0.007	0.096	0.006	0.093	0.006	0.095	0.001	0.091
F	3.107	37.511	33.895	36.967	1.241	37.170	13.301	39.169	11.267	38.091	11.218	38.950	1.410	37.092

Table 2 reports the results from OLS Analysis. The dependent variable is financial leverage. T-statistics are in parentheses. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels, respectively.

Source: SPSS 25. Output Results

Table 3. Moderation of Institutional Ownership on the Effect of Country Governance on Financial Leverage in ASEAN-5

Variable	Model 4													
	Model 3					Model 4								
	8.a	8.b	9.a	9.b	10.a	10.b	11.a	11.b	12.a	12.b	13.a	13.b	14.a	14.b
(Constant)	0.357*** (0.000)	0.432*** (0.000)	0.258*** (0.000)	0.342*** (0.000)	0.336*** (0.000)	0.387*** (0.000)	0.404*** (0.000)	0.526*** (0.000)	0.392*** (0.000)	0.484*** (0.000)	0.381*** (0.000)	0.487*** (0.000)	0.345*** (0.000)	0.416*** (0.000)
CG	-0.046* (0.087)	-0.092*** (0.002)	-	-	-	-	-	-	-	-	-	-	-	-
VA	-	-	0.190*** (0.000)	0.093 (0.163)	-	-	-	-	-	-	-	-	-	-
PS	-	-	-	-	-0.017 (0.265)	-0.045*** (0.007)	-	-	-	-	-	-	-	-
GR	-	-	-	-	-	-	-0.093*** (0.002)	-0.150*** (0.000)	-	-	-	-	-	-
RQ	-	-	-	-	-	-	-	-	-0.082*** (0.002)	-0.118*** (0.000)	-	-	-	-
RL	-	-	-	-	-	-	-	-	-	-	-0.072*** (0.003)	-0.120*** (0.000)	-	-
CC	-	-	-	-	-	-	-	-	-	-	-	-	-0.026 (0.241)	-0.067*** (0.005)
IOWN	0.082*** (0.000)	0.082*** (0.000)	0.065*** (0.000)	0.091*** (0.000)	0.085*** (0.000)	0.083*** (0.000)	0.072*** (0.000)	0.078*** (0.000)	0.075*** (0.000)	0.079*** (0.000)	0.074*** (0.000)	0.079*** (0.000)	0.082*** (0.000)	0.082*** (0.000)
CG X IOWN	0.009** (0.044)	0.013*** (0.002)	-	-	-	-	-	-	-	-	-	-	-	-
VA X IOWN	-	-	0.021*** (0.000)	0.022*** (0.000)	-	-	-	-	-	-	-	-	-	-
PS X IOWN	-	-	-	-	0.010** (0.014)	0.014*** (0.001)	-	-	-	-	-	-	-	-
GR X IOWN	-	-	-	-	-	-	0.006 (0.205)	0.011** (0.020)	-	-	-	-	-	-
RQ X IOWN	-	-	-	-	-	-	-	-	0.007 (0.148)	0.012*** (0.009)	-	-	-	-
RL X IOWN	-	-	-	-	-	-	-	-	-	-	0.007 (0.124)	0.011** (0.015)	-	-
CC X IOWN	-	-	-	-	-	-	-	-	-	-	-	-	0.008* (0.059)	0.012*** (0.004)



Variable	Model 3		Model 4											
	8.a	8.b	9.a	9.b	10.a	10.b	11.a	11.b	12.a	12.b	13.a	13.b	14.a	14.b
TA	-	0.017 (0.457)	-	0.029 (0.200)	-	0.018 (0.426)	-	0.015 (0.520)	-	0.016 (0.479)	-	0.014 (0.532)	-	0.019 (0.404)
ROA	-	-0.853*** (0.000)	-	-0.813*** (0.000)	-	-0.848*** (0.000)	-	-0.867*** (0.000)	-	-0.858*** (0.000)	-	-0.866*** (0.000)	-	-0.847*** (0.000)
INTER-EST	-	1.177*** (0.000)	-	0.770*** (0.007)	-	1.212*** (0.000)	-	0.940*** (0.000)	-	0.994*** (0.000)	-	0.978*** (0.000)	-	1.202*** (0.000)
GDP	-	-1.650*** (0.002)	-	-1.760*** (0.001)	-	-1.445*** (0.007)	-	-2.145*** (0.000)	-	-1.914*** (0.000)	-	-2.085*** (0.000)	-	-1.669*** (0.002)
R <sup>2</sup>	0.016	0.108	0.033	0.111	0.016	0.108	0.018	0.110	0.018	0.108	0.017	0.109	0.015	0.107
F	9.937	31.958	21.056	33.075	10.164	31.878	11.196	32.417	11.123	31.997	10.973	32.359	9.310	31.477

Table 3 reports the results from Moderated Regression Analysis. T-statistics are in parentheses. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels, respectively.

Source: SPSS 25. Output Results

## 1. The effect of country governance on financial leverage

Table 2 shows the effect of country governance and its components on financial leverage in the overall sample of ASEAN-5. In models 1a and 1b, CG has a significant negative effect on financial leverage. This condition shows that the better the governance in a country, the lower the level of debt in a company. Country governance is the quality of government governance related to all state resources for the welfare of society (World Bank, 1992). The better state governance in a country, the better creditor protection (Matemimola et al, 2019). The higher the creditor protection, the easier it is for the debtor to be declared bankrupt when in distress (Jong et al, 2008). This will encourage debtors to reduce debt when country governance is high, for fear of the relatively tight debt contracts that their creditors may enforce. In addition, it can be caused by developing countries in ASEAN-5 such as Indonesia, Thailand, Malaysia, and the Philippines which are tightly controlled by the government and the legal system, so that it can effectively limit access to credit for companies and make it more difficult for creditors to provide loans. In addition, developing countries are more concerned with providing assistance from the government (Fauver et al, 2015). This encourages companies in the country not to increase debt. Whereas in developed countries such as Singapore, political considerations may not play a role in determining the cost of debt. In other words, country governance has a negative effect on the company's financial leverage. Country governance scores in Singapore and Malaysia are above the world average for country governance, which is above 49.95%, while country governance scores in the Philippines, Indonesia, and Thailand are below the world average for country governance, which is below 49.95. %.

In models 2a and 2b, VA has a significant positive effect on financial leverage, meaning that the higher the voice and accountability in a country, the higher the level of debt in a company. Voice and accountability is a component that shows the extent of citizen involvement in overseeing the running of government, as well as transparency of policies and regulations, freedom of expression, and public participation in general elections (Kaufmann et al, 2009). This indicates that the higher the level of voice and accountability in a country, the public's supervision of the government in a country

increases. This increases the bargaining power of the community against the government through representative institutions such as the House of Representatives (DPR), so that people can easily impose their will on the government, such as when conditions are not favorable for the community, so they are easier to ask the government to change regulations to make it more profitable for them. . This will encourage debtors to increase their debts, because the community has the power to encourage the government to issue "pro-people" policies which sometimes are actually pro to large debtors. In addition, the higher the government supervision in a country, the better the protection of debtors because debtors are more comfortable that their rights will be protected by the government and treated fairly. This will encourage debtors to increase their debt. In addition, the higher the government supervision in a country, it can increase the commitment of companies to contract agreements. The higher the company's commitment in the contract agreement, the higher the creditor protection. The higher creditor protection can increase the willingness of creditors to provide loans. The higher the willingness of creditors to provide loans, it encourages companies to increase debt in order to obtain tax protection benefits from interest. In other words, voice and accountability have a positive effect on the company's financial leverage.

In model 3a, PS has no effect on financial leverage, while in model 3b PS has a significant negative effect on financial leverage, meaning that the higher the political stability and absence of violence in a country, the lower the level of debt in a company. Political stability and absence violence are components that indicate the possibility of the government being unstable in unconstitutional ways, including politically motivated violence and terrorism (Kaufmann et al, 2000). Political stability and absence violence describes how well the government is doing in dealing with the issue of political stability. The higher the political stability in a country, the lower the political risk. The lower the political risk in a country, it can increase the protection of creditors in a country. The higher the creditor protection, the easier it is for the debtor to be declared bankrupt when in distress (Jong et al, 2008). This will encourage debtors to reduce debt when political stability and absence violence is high, because they are worried about the relatively tight

debt contracts that their creditors may enforce. In other words, political stability and absence violence have a negative effect on the company's financial leverage.

In models 4a and 4b, GR has a significant negative effect on financial leverage. Government effectiveness has a significant negative effect on financial leverage in the ASEAN-5 region, meaning that the higher the government effectiveness in a country, the lower the level of debt in a company. Likewise, Government effectiveness has a significant negative effect on financial leverage in the Philippines, Indonesia, and Thailand. Government effectiveness is a component that shows the quality of public services, the quality of civil services and the level of control from political pressure, the quality of policy formulation and implementation, and the credibility of the government's commitment to these policies (Kaufmann et al, 2009). The higher the government effectiveness, the better the control of political pressure in a country. This can reduce political risk in a country and can increase creditor protection. The higher the creditor protection, the easier it is for the debtor to be declared bankrupt when in distress (Jong et al, 2008). This will encourage debtors to reduce debt when government effectiveness is high, fearing the relatively tight debt contracts that their creditors may enforce. In other words, government effectiveness has a negative effect on the company's financial leverage.

Models 5a and 5b show that RQ has a significant negative effect on financial leverage. The higher the regulatory quality in a country, the lower the level of debt in a company. Regulatory quality is a component that shows the government's ability to formulate and implement good policies and regulations in encouraging business development (Kaufmann et al, 2009). The higher the regulatory quality in a country, the better the government's ability to implement policies. The better a policy in a country, it can increase creditor protection. The higher the creditor protection, the easier it is for the debtor to be declared bankrupt when in distress (Jong et al, 2008). This will encourage debtors to reduce debt when regulatory quality is high, because they are worried about the relatively tight debt contracts that their creditors may enforce. In other words, regulatory quality has a negative effect on the company's financial leverage.

In models 6a and 6b, RL has a significant negative effect on financial leverage. The higher the rule of law in a country, the lower the level of debt in a company. Likewise, the rule of law has a significant negative effect on financial leverage in the Philippines, Indonesia, and Thailand. The rule of law is a component that shows the ability to draw up laws and regulations by the government of a country which aims to provide a clear legal basis and can be obeyed by citizens (Kaufmann et al, 2009). The higher the level of rule of law in a country, the greater the legal protection for business activities (Kaufmann et al, 2009). The higher the legal protection for business activities, the higher the creditor protection. The higher the creditor protection, the easier it is for the debtor to be declared bankrupt when in distress (Jong et al, 2008). This will encourage debtors to reduce debt when the rule of law is high, for fear of the relatively tight debt contracts that their creditors may enforce. In other words, the rule of law has a negative effect on the company's financial leverage.

The 7a CC model has no effect on financial leverage, while the 7b CC model has a significant negative effect on financial leverage. The higher the control of corruption in a country, the lower the level of debt in a company. Control of corruption is a component that shows the level of completion of cases and prevention of corruption in a country. The higher the control of corruption in a country, the lower the level of corruption in that country. The lower the level of corruption in a country, the greater the effectiveness of regulatory oversight in a country (Thakur et al, 2019). The higher the effectiveness of regulatory oversight in a country, the higher the creditor protection. The higher the creditor protection, the easier it is for the debtor to be declared bankrupt when in distress (Jong et al, 2008). This will encourage debtors to reduce debt when control of corruption is high, for fear of the relatively tight debt contracts that their creditors may enforce. In other words, control of corruption has a negative effect on the company's financial leverage.

## 2. Moderating Effect of Institutional Ownership on the Effect of Country Governance on Financial Leverage

Table 3 shows the moderating effect of institutional ownership on the effect of country governance on financial leverage in ASEAN-5

(overall sample). In model 8, institutional ownership weakens the negative effect of country governance on financial leverage. Country governance has a negative effect on financial leverage, but after being moderated or the interaction variable becomes positive, it means that the negative influence of country governance on financial leverage is weakened. This shows that institutional ownership weakens the negative influence of country governance on financial leverage in ASEAN-5 in model 8, meaning that country governance has a negative effect on financial leverage, but after being moderated or the interaction variable becomes positive, it means that the negative influence of country governance on financial leverage is weakened. The higher the country governance, the stronger law enforcement in a country and create an effective business environment (Matemimola et al, 2019). This can increase debtor protection because debtors are more comfortable that their rights will be protected by the government and treated fairly. The inclusion of institutional ownership makes debtors more protected, because the institution has a broad network, thereby increasing the debtor's bargaining power. The higher debtor protection, it will encourage debtors to increase debt. According to Burns et al (2010) the existence of institutional ownership in a company can increase supervision. Institutional ownership offers better internal control of the company, so it can encourage a balance of positions in an agreement (Chaganti and Damanpour, 1991). This can increase creditor confidence in debtors and will encourage greater debt. In other words, institutional ownership weakens the negative effect of country governance on financial leverage.

In model 9, institutional ownership strengthens the positive effect of voice and accountability on financial leverage. The higher the voice and accountability, the supervision of the government in a country will increase. The higher the government supervision in a country, the better the protection of debtors because debtors are more comfortable that their rights will be protected by the government and treated fairly. The inclusion of institutional ownership makes debtors more protected, because the institution has a broad network, thereby increasing the debtor's bargaining power. This will encourage debtors to increase their debt. According to Burns et al (2010), the existence of institutional ownership in a company can increase

supervision. Chaganti and Damanpour (1991) state that institutional ownership offers better corporate internal control. This condition can encourage the balance of position in an agreement. This can increase creditor confidence in debtors and will encourage greater debt. In other words, institutional ownership strengthens the positive effect of voice and accountability on financial leverage.

In model 10, institutional ownership weakens the negative effect of political stability and absence violence on financial leverage. Political stability and absence violence have a negative effect on financial leverage, but after being moderated or the interaction variable becomes positive, it means that the negative influence of political stability and absence violence on financial leverage is weakened. The higher the political stability and absence violence, the better the government's performance in dealing with the issue of political stability. This will reduce political risk. The lower the political risk in a country, it can increase debtor protection because debtors are more comfortable that their rights will be protected by the government and treated fairly. The inclusion of institutional ownership makes debtors more protected, because the institution has a broad network, thereby increasing the debtor's bargaining power. This will encourage debtors to increase debt. According to Burns et al (2010) the existence of institutional ownership in a company can increase supervision. Chaganti and Damanpour (1991) argue that the balance of positions in an agreement can arise as a result of better internal company oversight. This can increase creditor confidence in debtors and will encourage greater debt. In other words, institutional ownership weakens the negative effect of political stability and absence of violence on financial leverage.

In model 11, institutional ownership weakens the negative effect of government effectiveness on financial leverage. Government effectiveness has a negative effect on financial leverage, but after being moderated or the interaction variable becomes positive, it means that the negative influence of government effectiveness on financial leverage is weakened. The higher the government effectiveness, the better the control of political pressure in a country. This can reduce political risk in a country. The lower the political risk in a country, it can increase debtor protection because debtors are more comfortable that their rights will be protected by the government and treated fairly.



The inclusion of institutional ownership makes debtors more protected, because the institution has a broad network, thereby increasing the debtor's bargaining power. This will encourage debtors to increase debt. According to Burns et al (2010) the existence of institutional ownership in a company can increase supervision. Institutional ownership offers better internal control of the company, so it can encourage a balance of positions in an agreement (Chaganti and Damanpour, 1991). This can increase creditor confidence in debtors and will encourage greater debt. In other words, institutional ownership weakens the negative effect of government effectiveness on financial leverage.

In model 12, institutional ownership weakens the negative influence of regulatory quality on financial leverage. Regulatory quality has a negative effect on financial leverage, but after being moderated or the interaction variable becomes positive, it means that the negative influence of regulatory quality on financial leverage is weakened. The higher the regulatory quality in a country, the better the government's ability to implement policies. The better a policy in a country, the better the protection of debtors because debtors are more comfortable that their rights will be protected by the government and treated fairly. The inclusion of institutional ownership makes debtors more protected, because the institution has a broad network, thereby increasing the debtor's bargaining power. This will encourage debtors to increase their debt. According to Burns et al (2010) the existence of institutional ownership in a company can increase supervision. Institutional ownership can promote a balance of positions in an agreement (Chaganti and Damanpour, 1991). This can increase creditor confidence in debtors and will encourage greater debt. In other words, institutional ownership weakens the negative influence of regulatory quality on financial leverage.

In model 13, institutional ownership weakens the negative effect of the rule of law on financial leverage. The rule of law has a negative effect on financial leverage, but after being moderated or the interaction variable becomes positive, it means that the negative influence of the rule of law on financial leverage is weakened. The higher the level of rule of law in a country, the greater the legal protection for business activities (Kaufmann et al, 2009). The higher the legal protection for business activities,

the better the protection of debtors because debtors are more comfortable that their rights will be protected by the government and treated fairly (Pohjankoski, 2021). The inclusion of institutional ownership makes debtors more protected. This is because the institution has an extensive network, thereby increasing the bargaining power of debtors. This will encourage debtors to increase their debt. According to Burns et al (2010) the existence of institutional ownership in a company can increase supervision. Institutional ownership offers better internal control of the company, so it can encourage a balance of positions in an agreement (Chaganti and Damanpour, 1991). This can increase creditor confidence in debtors and will encourage greater debt. In other words, institutional ownership weakens the negative influence of the rule of law on financial leverage.

In model 14, institutional ownership weakens the negative effect of control of corruption on financial leverage. Control of corruption has a negative effect on financial leverage, but after being moderated or the interaction variable becomes positive, it means that the negative influence of control of corruption on financial leverage is weakened. The higher the control of corruption in a country, the lower the level of corruption in that country. The lower the level of corruption in a country, the greater the effectiveness of regulatory oversight in a country (Thakur et al, 2019). The higher the effectiveness of regulatory oversight in a country, the better the protection of debtors because debtors are more comfortable that their rights will be protected by the government and treated fairly. The inclusion of institutional ownership makes debtors more protected. This is because the institution has an extensive network, thereby increasing the bargaining power of debtors. This will encourage debtors to increase their debt. According to Burns et al (2010) the existence of institutional ownership in a company can increase supervision. The balance of standing in an agreement can be driven by institutional ownership. This is because institutional ownership leads to better internal control of the company (Chaganti and Damanpour, 1991). This can increase creditor confidence in debtors and will encourage greater debt. In other words, institutional ownership weakens the negative effect of control of corruption on financial leverage.

### 3. Robustness Check

Robustness check testing is carried out by dividing the sample into two groups, namely countries above the world average country governance (> 49.95%) consisting of Singapore and Malaysia and countries below the world average country governance (< 49.95%) consisting of from Indonesia, Thailand and the Philippines. The analysis was then continued to determine the effect of country governance and its components on financial leverage and the role of institutional ownership as a moderating variable. Tables 4 and 5 show the results of the effect of country governance and its components on financial leverage, while Tables 8 and 9 show the results of interactions using institutional ownership moderation.

Table 4 shows that in models 1a and 1b, CG has a significant positive effect on financial leverage, while in Table 5 CG only has a significant positive effect on 1a. The results in the Singapore and Malaysia group of countries show that country governance has a positive effect on financial leverage. This shows that the better state governance in a country, the better creditor protection (Matemimola et al, 2019). In Singapore and Malaysia, high country governance scores are formed by high country governance component scores, meaning that good creditor protection is also balanced with equally good debtor protection. Therefore debtors tend to use debt to take advantage of tax protection from the use of debt. The results in the sample group of countries from the Philippines, Indonesia, and Thailand show that country governance has no effect on financial leverage.

Table 4. Robustness Check The Effect of Country Governance on Financial Leverage in Countries Above the Average CG Score of ASEAN-5

Variable	Model 2													
	1.a	1.b	2.a	2.b	3.a	3.b	4.a	4.b	5.a	5.b	6.a	6.b	7.a	7.b
(Constant)	0.234*** (0.000)	0.252** (0.022)	0.179*** (0.003)	0.348** (0.011)	0.286*** (0.000)	0.317*** (0.000)	0.183*** (0.000)	0.197 (0.154)	0.201*** (0.000)	0.228*** (0.060)	0.224*** (0.000)	0.234* (0.062)	0.262*** (0.000)	0.280*** (0.004)
CG	0.172*** (0.000)	0.163* (0.058)	-	-	-	-	-	-	-	-	-	-	-	-
VA	-	-	0.468*** (0.004)	0.222 (0.439)	-	-	-	-	-	-	-	-	-	-
PS	-	-	-	-	0.102*** (0.000)	0.089* (0.059)	-	-	-	-	-	-	-	-
GR	-	-	-	-	-	-	0.203*** (0.000)	0.199* (0.058)	-	-	-	-	-	-
RQ	-	-	-	-	-	-	-	-	0.186*** (0.000)	0.168* (0.057)	-	-	-	-
RL	-	-	-	-	-	-	-	-	-	-	0.168*** (0.000)	0.164* (0.072)	-	-
CC	-	-	-	-	-	-	-	-	-	-	-	-	0.128 (0.000)	0.119* (0.060)
TA	-	0.028 (0.335)	-	0.024 (0.409)	-	0.028 (0.333)	-	0.028 (0.336)	-	0.028 (0.331)	-	0.027 (0.345)	-	0.028 (0.336)
ROA	-	-0.530*** (0.000)	-	-0.537*** (0.000)	-	-0.531*** (0.000)	-	-0.530*** (0.000)	-	-0.531*** (0.000)	-	-0.530*** (0.000)	-	-0.531*** (0.000)
INTER-EST	-	-0.352 (0.391)	-	-0.359 (0.494)	-	-0.315 (0.436)	-	-0.408 (0.333)	-	-0.251 (0.524)	-	-0.316 (0.437)	-	-0.320 (0.429)
GDP	-	0.042 (0.973)	-	-1.361 (0.187)	-	-0.207 (0.854)	-	0.114 (0.928)	-	-0.052 (0.965)	-	0.150 (0.910)	-	0.013 (0.991)
R <sup>2</sup>	0.014	0.052	0.008	0.049	0.014	0.052	0.014	0.052	0.014	0.052	0.014	0.052	0.014	0.052
F	14.697	11.319	8.509	10.690	14.508	11.314	14.634	11.321	14.768	11.325	14.529	11.246	14.575	11.311

Table 4 reports the results from OLS Analysis of robustness tests. T-statistics are in parentheses. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels, respectively.

Source: SPSS 25 output results

Table 5. Robustness Check The Effect of Country Governance on Financial Leverage in Countries Below the Average CG Score of ASEAN-5

Variable	Model 2													
	1.a	1.b	2.a	2.b	3.a	3.b	4.a	4.b	5.a	5.b	6.a	6.b	7.a	7.b
(Constant)	-0.007 (0.966)	0.481*** (0.006)	0.313*** (0.000)	0.441*** (0.000)	0.286*** (0.000)	0.395*** (0.000)	0.658*** (0.000)	0.680*** (0.000)	0.768*** (0.000)	0.649*** (0.103)	0.605*** (0.000)	0.823*** (0.000)	0.167** (0.040)	0.421*** (0.000)
CG	-0.938** (0.016)	-0.174 (0.648)	-	-	-	-	-	-	-	-	-	-	-	-
VA	-	-	0.233*** (0.000)	0.355** (0.009)	-	-	-	-	-	-	-	-	-	-
PS	-	-	-	-	0.536*** (0.000)	0.049 (0.731)	-	-	-	-	-	-	-	-
GR	-	-	-	-	-	-	-0.436*** (0.000)	-0.345** (0.033)	-	-	-	-	-	-
RQ	-	-	-	-	-	-	-	-	-0.668*** (0.000)	-0.355 (0.536)	-	-	-	-
RL	-	-	-	-	-	-	-	-	-	-	-0.440*** (0.000)	-0.590*** (0.004)	-	-
CC	-	-	-	-	-	-	-	-	-	-	-	-	0.561 (0.004)	-0.041 (0.831)
TA	-	0.016 (0.655)	-	0.019 (0.579)	-	0.017 (0.629)	-	0.017 (0.632)	-	0.018 (0.623)	-	0.016 (0.662)	-	0.016 (0.647)
ROA	-	-1.478*** (0.000)	-	-1.494*** (0.000)	-	-1.465*** (0.000)	-	-1.493*** (0.000)	-	-1.470*** (0.000)	-	-1.507*** (0.000)	-	-1.474*** (0.000)
INTER-EST	-	1.367*** (0.000)	-	0.047 (0.933)	-	1.214*** (0.004)	-	0.726* (0.069)	-	0.686 (0.519)	-	0.627* (0.093)	-	1.342*** (0.000)
GDP	-	-0.355 (0.649)	-	-2.636** (0.025)	-	-0.210 (0.788)	-	-1.187 (0.173)	-	-0.679 (0.499)	-	-2.659** (0.018)	-	-0.291 (0.704)
R <sup>2</sup>	0.007	0.181	0.030	0.188	0.033	0.181	0.027	0.186	0.034	0.182	0.023	0.189	0.010	0.181
F	5.830	35.904	25.320	37.551	28.599	35.882	22.200	36.965	28.879	35.947	19.587	37.852	8.325	35.864

Table 5 reports the results from OLS Analysis of robustness tests. T-statistics are in parentheses. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels, respectively. Source: SPSS 25 output results



Table 4 model 2 shows that only model 2a shows that VA has a significant positive effect on financial leverage, while in Table 5 both models show a significant positive effect. This shows that voice and accountability have a significant positive effect on financial leverage in the Philippines, Indonesia, and Thailand group of countries. Meanwhile, in the sample group of Singapore and Malaysia, voice and accountability have no effect on financial leverage. This shows that in the Philippines, Indonesia, and Thailand, good voice and accountability are supported by other good country governance scores, good creditor protection is also balanced with equally good debtor protection. This causes debtors to tend to use debt to take advantage of tax protection from the use of debt. The results show that if only creditors are protected, the relationship between the two variables is negative, whereas if all parties are protected, the relationship will be positive.

Models 3a and 3b in Table 4 show that PS has a significant positive effect on financial leverage, while in Table 5 only model 3a shows a significant positive effect. This shows that political stability and absence violence have a significant positive effect on financial leverage in the Singapore and Malaysia group of countries, but does not show any effect on financial leverage in the Philippines, Indonesia, and Thailand group of countries. This shows that in the sample of Singapore and Malaysia, good political stability and absence violence is supported by good scores of other country governance, good creditor protection is also balanced with equally good debtor protection. Debtors tend to use debt to take advantage of tax protection from the use of debt.

Table 4 shows that in models 4a and 4b, GR has a significant positive effect on financial leverage. This shows that government effectiveness has a significant positive effect on financial leverage in Singapore and Malaysia. This shows that in Singapore and Malaysia, good government effectiveness is supported by good scores of other country governance, good creditor protection is also balanced with equally good debtor protection. Therefore debtors tend to use debt to take advantage

of tax protection from the use of debt. In Table 5, both models show that government effectiveness has a significant negative effect on financial leverage in Indonesia, Thailand, and the Philippines.

Table 4 shows that in models 5a and 5b, RQ has a significant positive effect on financial leverage. This shows that regulatory quality has a significant positive effect on financial leverage in Singapore and Malaysia, and regulatory quality has no effect on financial leverage in the Philippines, Indonesia, and Thailand as shown in Table 5. This shows that in Singapore and Malaysia, Good regulatory quality is supported by other good country governance scores, good creditor protection is also balanced with equally good debtor protection. Therefore debtors tend to use debt to take advantage of tax protection from the use of debt.

Table 4 shows that in models 6a and 6b, RL has a significant positive effect on financial leverage, while models 6a and 6b in Table 5 show a significant negative effect on financial leverage. This shows that in Singapore and Malaysia, good rule of law is supported by other good country governance scores, good creditor protection is also balanced with equally good debtor protection. Therefore debtors tend to use debt to take advantage of tax protection from the use of debt. Meanwhile, the results of the rule of law research have a significant negative effect on financial leverage in Indonesia, Thailand, and the Philippines.

In Table 4, only model 7b has CC a significant positive effect on financial leverage, while in Table 5 all models show no effect on financial leverage. This shows that control of corruption has a significant positive effect on financial leverage in Singapore and Malaysia, and control of corruption has no effect on financial leverage in the Philippines, Indonesia and Thailand. This indicates that in Singapore and Malaysia, good control of corruption is supported by good scores of other country governance, good creditor protection is also balanced with equally good debtor protection. Therefore debtors tend to use debt to take advantage of tax protection from the use of debt.

Table 6. Robustness Check Moderation of Institutional Ownership on the Effect of Country Governance on Financial Leverage in Countries Above the ASEAN-5 Average CG Score

Variabel	Model 3					Model 4								
	8.a	8.b	9.a	9.b	10.a	10.b	11.a	11.b	12.a	12.b	13.a	13.b	14.a	14.b
(Constant)	0.183*** (0.000)	0.221** (0.042)	0.142** (0.020)	0.312** (0.020)	0.227*** (0.000)	0.267*** (0.001)	0.140*** (0.002)	0.182 (0.181)	0.155*** (0.000)	0.204*** (0.089)	0.175*** (0.000)	0.212* (0.086)	0.207*** (0.000)	0.240** (0.012)
CG	0.148*** (0.001)	0.121 (0.158)	-	-	-	-	-	-	-	-	-	-	-	-
VA	-	-	0.387** (0.015)	0.119 (0.673)	-	-	-	-	-	-	-	-	-	-
PS	-	-	-	-	0.088*** (0.001)	0.067 (0.150)	-	-	-	-	-	-	-	-
GR	-	-	-	-	-	-	0.175*** (0.001)	0.146 (0.161)	-	-	-	-	-	-
RQ	-	-	-	-	-	-	-	-	0.160*** (0.001)	0.124 (0.157)	-	-	-	-
RL	-	-	-	-	-	-	-	-	-	-	0.145*** (0.001)	0.118 (0.192)	-	-
CC	-	-	-	-	-	-	-	-	-	-	-	-	0.110*** (0.001)	0.089 (0.154)
IOWN	0.125*** (0.000)	0.138*** (0.000)	0.125*** (0.000)	0.137*** (0.000)	0.125*** (0.000)	0.139*** (0.000)	0.125*** (0.000)	0.138*** (0.000)	0.125*** (0.000)	0.138*** (0.000)	0.125*** (0.000)	0.138*** (0.000)	0.125*** (0.000)	0.139*** (0.000)
CG X IOWN	-0.006 (0.286)	-0.004 (0.461)	-	-	-	-	-	-	-	-	-	-	-	-
VA X IOWN	-	-	-0.003 (0.620)	-0.001 (0.920)	-	-	-	-	-	-	-	-	-	-
PS X IOWN	-	-	-	-	-0.006 (0.265)	-0.004 (0.423)	-	-	-	-	-	-	-	-
GR X IOWN	-	-	-	-	-	-	-0.006 (0.304)	-0.004 (0.495)	-	-	-	-	-	-
RQ X IOWN	-	-	-	-	-	-	-	-	-0.006 (0.285)	-0.004 (0.456)	-	-	-	-
RL X IOWN	-	-	-	-	-	-	-	-	-	-	-0.006 (0.295)	-0.004 (0.475)	-	-
CC X IOWN	-	-	-	-	-	-	-	-	-	-	-	-	-0.006 (0.279)	-0.004 (0.441)

Variabel	Model 3					Model 4								
	8.a	8.b	9.a	9.b	10.a	10.b	11.a	11.b	12.a	12.b	13.a	13.b	14.a	14.b
TA	-	0.016 (0.582)	-	0.012 (0.687)	-	0.016 (0.575)	-	0.016 (0.586)	-	0.016 (0.579)	-	0.015 (0.595)	-	0.016 (0.580)
ROA	-	-0.582*** (0.000)	-	-0.592*** (0.000)	-	-	-	-0.582*** (0.000)	-	-0.582*** (0.000)	-	-0.582*** (0.000)	-	-0.583*** (0.000)
INTEREST	-	-0.353 (0.382)	-	-0.303 (0.558)	-	-0.331 (0.406)	-	-0.393 (0.344)	-	-0.278 (0.475)	-	-0.321 (0.422)	-	-0.332 (0.406)
GDP	-	-0.132 (0.913)	-	-1.247 (0.210)	-	-0.289 (0.794)	-	-0.089 (0.943)	-	-0.204 (0.816)	-	-0.092 (0.944)	-	-0.135 (0.911)
R <sup>2</sup>	0.039	0.083	0.034	0.081	0.039	0.083	0.039	0.083	0.039	0.083	0.039	0.082	0.039	0.083
F	14.010	13.234	12.082	12.886	14.007	13.260	13.961	13.221	14.031	13.240	13.949	13.184	14.000	13.246

Table 6 reports the results from Moderation Analysis of robustness tests. T-statistics are in parentheses. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels, respectively.

Source: SPSS 25 output results

  

Variable	Model 3					Model 4								
	8.a	8.b	9.a	9.b	10.a	10.b	11.a	11.b	12.a	12.b	13.a	13.b	14.a	14.b
(Constant)	-0.158 (0.448)	0.431** (0.031)	0.308*** (0.000)	0.432*** (0.000)	0.287*** (0.000)	0.387*** (0.000)	0.701*** (0.000)	0.637*** (0.000)	0.823*** (0.000)	0.648 (0.104)	0.678*** (0.000)	0.833*** (0.000)	0.150* (0.080)	0.424*** (0.000)
CG	1.255*** (0.009)	-0.044 (0.925)	-	-	-	-	-	-	-	-	-	-	-	-
VA	-	-	0.288*** (0.000)	0.378*** (0.005)	-	-	-	-	-	-	-	-	-	-
PS	-	-	-	-	0.526*** (0.000)	0.031 (0.838)	-	-	-	-	-	-	-	-
GR	-	-	-	-	-	-	-0.490*** (0.000)	-0.302*** (0.075)	-	-	-	-	-	-
RQ	-	-	-	-	-	-	-	-	-0.758*** (0.000)	-0.378 (0.510)	-	-	-	-
RL	-	-	-	-	-	-	-	-	-	-	-0.549*** (0.000)	-0.607*** (0.004)	-	-
CC	-	-	-	-	-	-	-	-	-	-	-	-	0.571*** (0.006)	-0.060 (0.767)

IOWN	0.020 (0.422)	-0.026 (0.332)	-0.040 (0.207)	-0.012 (0.687)	0.000 (0.994)	-0.022 (0.433)	-0.027 (0.387)	-0.012 (0.698)	-0.021 (0.481)	-0.011 (0.718)	0.044 (0.165)	-0.014 (0.656)	0.021 (0.384)	-0.026 (0.338)
CG X IOWN	-0.010 (0.290)	-0.006 (0.549)	-	-	-	-	-	-	-	-	-	-	-	-
VA X IOWN	-	-	0.013 (0.143)	0.013 (0.119)	-	-	-	-	-	-	-	-	-	-
PS X IOWN	-	-	-	-	0.003 (0.718)	0.003 (0.746)	-	-	-	-	-	-	-	-
GR X IOWN	-	-	-	-	-	-	-0.010 (0.270)	-0.012 (0.181)	-	-	-	-	-	-
RQ X IOWN	-	-	-	-	-	-	-	-	-0.016* (0.075)	-0.010 (0.254)	-	-	-	-
RL X IOWN	-	-	-	-	-	-	-	-	-	-	0.006 (0.451)	0.014* (0.086)	-	-
CC X IOWN	-	-	-	-	-	-	-	-	-	-	-	-	-0.002 (0.846)	0.000 (0.963)
TA	-	0.017 (0.633)	-	0.017 (0.626)	-	0.018 (0.613)	-	0.016 (0.655)	-	0.017 (0.635)	-	0.013 (0.715)	-	0.018 (0.626)
ROA	-	-1.474*** (0.000)	-	-1.480*** (0.000)	-	-1.460*** (0.000)	-	-1.479*** (0.000)	-	-1.459*** (0.000)	-	-1.493*** (0.000)	-	-1.471*** (0.000)
INTEREST	-	1.445*** (0.000)	-	0.073 (0.896)	-	1.263*** (0.003)	-	0.887** (0.032)	-	0.650 (0.542)	-	0.795** (0.039)	-	1.398*** (0.000)
GDP	-	-0.265 (0.783)	-	-2.663** (0.029)	-	0.260 (0.784)	-	-0.946 (0.311)	-	-0.315 (0.768)	-	-2.879** (0.016)	-	0.076 (0.933)
R <sup>2</sup>	0.010	0.183	0.038	0.192	0.034	0.182	0.031	0.189	0.042	0.184	0.028	0.194	0.011	0.182
F	2.735	25.812	10.699	27.490	9.570	25.735	8.653	26.903	11.747	25.994	7.901	27.865	3.085	25.716

Table 7 reports the results from Moderation Analysis of robustness tests. T-statistics are in parentheses. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels, respectively.

Source: SPSS 25 output results

The robustness check results in Table 6 show that institutional ownership does not moderate the effect of country governance and each component of country governance on financial leverage in countries above the average ASEAN-5 country governance score. Table 7 shows the moderating effect was only captured in models 12a and 13b. Model 12a shows that institutional ownership strengthens the negative effect of regulatory quality on financial leverage, while in model 13b institutional ownership weakens the negative effect of the rule of law on financial leverage.

## CONCLUSION

This study seeks to determine the effect of country governance and its components on financial leverage and the role of institutional ownership as a moderating variable. The results of this study indicate that country governance has a significant negative effect on financial leverage in ASEAN-5. The components of country governance, such as political stability and absence violence, government effectiveness, regulatory quality, rule of law, and control of corruption, show a significant negative effect on financial leverage, while voice and accountability have a significant positive effect. For the role of institutional ownership, this study attempts to interact these variables in the six components of country governance. The results show that institutional ownership tends to weaken the negative influence of country governance, political stability and absence violence, government effectiveness, regulatory quality, rule of law, and control of corruption, while in voice and accountability the moderating role of institutional ownership strengthens the positive influence on financial leverage.

Robustness check testing is done by dividing the sample into two groups, namely countries above the average and below the average country governance. The results show that country governance has a significant positive effect on financial leverage in countries above the average ASEAN-5 country governance score. For the six components of country governance, it shows

that political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption have a significant positive effect on financial leverage in companies in countries above the average ASEAN-5 country governance score. For voice and accountability, government effectiveness, rule of law shows a significant positive effect in countries below the average ASEAN-5 country governance score. In the interaction test, the role of institutional ownership does not moderate the effect of country governance and its six components on the financial leverage of companies in countries above the average ASEAN-5 country governance score. The moderating role of institutional ownership was only captured in the sample group of countries below the ASEAN-5 average country governance score, namely the rule of law component.

Based on this, this study shows that country governance is related to protection of contracts, debtors and creditors, clean business practices, and others. This means that business people, especially international businesses, can complete a funding strategy for their subsidiaries. Institutional investors need to adjust their investment strategy to country governance because country governance can affect the company's business activities and even all aspects that exist in the country. Creditors need to understand the impact of country governance on financial leverage in the form of credit distribution policies to companies and creditors must also adjust credit policies according to institutional ownership. Investors and debtors need to consider the existence of institutional ownership because it can improve the image of the company.

This study provides insight into the effect of the component of country governance on financial leverage as well as a comparison of these effects in countries with high and low country governance. It is necessary to carry out similar tests in other regions of the world to obtain an overview of the consistency of the results of this study. This research was also carried out in countries with more or less similar national cultural backgrounds and it would be very interesting to conduct similar research on a group of countries with different national cultures.



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