

The Moderating Role of Corporate Governance on The Relationship of Capital Structure on Firm Value

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ABSTRACT

The development of the business world at this time has led to intense competition, which requires companies to continue to increase their value because company value is one of the goals that determine the long-term success of the company. This study aims to examine the effect of capital structure on firm value and to examine the moderating effect of corporate governance on the effect of capital structure on firm value. This research is quantitative research using secondary data taken from the official website of the Indonesia Stock Exchange (IDX) and the official website of each company. The population in this study are food and beverage companies listed on the IDX in 2019-2023. The sample in this study consisted of 230 companies selected based on purposive sampling technique with criteria that have consistently reported annual reports in 2019-2023. The data analysis technique used in this study is moderation regression analysis using SPSS version 25. The results showed that capital structure negatively affects firm value ($\beta = -0.42$, $p < 0.05$) and corporate governance is able to moderate the effect of capital structure on firm value ($\beta = 0.80$, $p < 0.05$) which explain 19.2% of variance. These results imply that excessive leverage can erode firm value, but strong governance through transparent reporting, effective oversight, and board independence can mitigate this risk. The regulatory authorities and boards of directors are encouraged to strengthen corporate governance to support balanced financing decisions and preserve firm value stability in competitive markets.



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INTRODUCTION

The business world is a world full of uncertainty, but over time, business activities will continue to grow rapidly, followed by an increase in the number of companies, causing

increasingly fierce competition between companies. This situation requires companies to increase and maintain company value, because firm value is one of the goals that determine the long-term success of the company (Bui et al., 2023).

Firm value directly reflects how the company is managed and how well the company performs (Ichwanudin et al., 2023). Firm value is a major factor in investor perception, because it is used as an indicator of performance and future prospects (Siregar et al., 2023). The success of creating company value depends on the investment strategy carried out so that investment decisions are key in increasing company value and optimizing performance in the capital market (Hirdinis, 2019).

One of the cases related to corporate value occurred at PT Indofood CBP Sukses Makmur Tbk (ICBP) according to news quoted from (CNBC-Indonesia, 2021), where the company acquired Pinehill Company Limited for US\$2.99 billion to expand its instant noodle distribution network in the international market. To support this acquisition, ICBP issued global bonds on June 9, 2021 amounting to US\$1.75 billion or equivalent to IDR 25 trillion. However, in 2022, ICBP recorded a 28.3% decrease in net profit to IDR4.58 trillion compared to the previous year. This decline was caused by an increase in financial expenses related to the bond issuance and Pinehill acquisition, which led to a decrease in investor confidence and caused the company's value to decline.

Based on this case, it can be concluded that funding decisions, both from debt and equity, are one of the factors that can affect firm value. Financial managers must be able to make decisions related to company operations (Ngatno et al., 2021). One of the crucial decisions faced by companies is funding decisions, where good funding decisions can be seen through their capital structure which reflects financial policies related to the use of debt (Dang & Do, 2021).

A capital structure dominated by debt can significantly affect fluctuations in firm value. The greater the debt used, the higher the chance of an increase in share price, which in turn will increase the value of the company. However, the use of high debt will also pose a risk to the company, such as the company's inability to fulfill its obligations and interest payments. If debt continues to increase beyond reasonable limits, the company's value may decrease because the financial burden borne is

greater than the benefits obtained (Bui et al., 2023). Therefore, companies need to manage the capital structure optimally by balancing the use of debt and equity so that it will contribute positively to increasing firm value (Dang & Do, 2021).

Based on the agency theory proposed by Jensen & Meckling (1976), there is a pooling of interests related to the funding structure, namely between management as an agent and shareholders or debt holders as principals. When debt levels increase, creditors tend to demand higher interest rates to offset the risk of default that may occur. Every funding instrument issued, whether in the form of debt or equity, will incur certain costs for the company. In the case of debt, the company must pay interest and principal regularly, while in the case of equity, the company needs to meet investors' expectations through dividend payments or improved performance in the future. Therefore, the capital structure policy must be able to balance the interests of managers, shareholders, and creditors to create an optimal funding structure so as to increase firm value.

Managers as agents often make decisions that tend to focus on improving performance to maximize personal gain so that they will ignore the interests of the principals. This triggers a conflict between agents and principals due to differences in interests that cannot be united. The existence of this conflict results in decisions related to capital structure that cannot be taken optimally, which in turn can hamper efforts to increase firm value. Therefore, it requires other factors that can strengthen the relationship between capital structure and firm value, such as corporate governance.

Corporate governance mechanisms are considered effective in reducing agency problems that occur between agents and principals (Setyahadi & Narsa, 2020). Corporate governance can help create a trustworthy, transparent, and accountable environment necessary to maintain long-term investment, financial stability, and business integrity (Abigail & Dharmastuti, 2022). Thus, the implementation of good corporate governance is very important to strengthen the company's control function by ensuring that decisions related to capital structure are made

appropriately and in line with the interests of all stakeholders so as to increase company value.

The population in this study are all food and beverage sector companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023. The food and beverage industry was chosen because this industry plays an important role in the national economy, where this sector is able to grow above Indonesia's economic growth, as evidenced in the second quarter of 2024 by 5.53 percent. Thus, this achievement makes the food and beverage industry able to contribute 40.33 percent to the Gross Domestic Product (GDP) of the non-oil and gas processing industry so that it still makes it the subsector with the largest GDP contribution (Kemenperin, 2024). In addition, based on data at idx.co.id, the number of companies in the food and beverage sector from 2019 to 2023 has increased every year, indicating good development prospects in this sector.

This study is a replication of (Wardani & Djando, 2022), but with some improvements in variable measurements. If previously they used Price to Book Value (PBV) as a proxy for firm value, this study uses Tobin's Q which is considered more relevant because it compares market value with asset replacement costs (Anita et al., 2023). In addition, the measurement of corporate governance, which previously only used the proportion of independent commissioners, was refined by using the more comprehensive Corporate Governance Index (CGI), which includes aspects of transparency, accountability, and shareholder protection, as conducted by Adinegara & Sukamulja (2021). Based on the background that has been described, the purpose of this study is to examine the effect of capital structure on firm value, and to test whether corporate governance is able to moderate the relationship between capital structure and firm value .

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory explains that there is a relationship between two parties, including the agent and the principal (Jensen & Meckling, 1976). According to this theory, agents often

provide information that does not fully reflect the true condition of the company to the principal (Jensen & Meckling, 1976). Agency problems arise due to the separation of ownership and management. To reduce agency conflicts, principals can supervise and set incentives for agents (Jensen & Meckling, 1976). Supervision mechanisms for agents can be carried out through natural mechanisms, such as capital market pressures or institutional mechanisms, such as corporate governance (Rahmawati & Rohma, 2024). The context of agency theory in this study is how conflicts of interest between managers as agents and shareholders and creditors as principals can influence decisions regarding capital structure and firm value.

The association between capital structure and firm value could also trigger trade-offs. Modigliani & Miller, (1963) explains in his trade-off theory that firms might find debt beneficial as a tax shield to enhance firm value, but excessive debt could increase bankruptcy risk, ultimately can erode firm value. This indicates a non-linear relationship between debt and firm value, necessitating good governance mechanisms to achieve an optimal capital structure in order to balance the costs and benefits of debt financing (Agyei et al., 2020).

Through an integration of both perspectives, this study finds that decisions regarding capital structure not only involve agency costs but also trade-offs between tax shields and bankruptcy risk. The implementation of good corporate governance as a moderating factor might define how these theoretical dynamic manifests in practical terms regarding the influence of capital structure on firm value.

The Effect of Capital Structure on Firm Value

Capital structure is the company's financial proportion between debt and equity, which shows how much of each component is used for the company's operational needs in order to run optimally (Weston & Copeland, 1996). Companies can use capital structure to regulate the proportion between the use of debt and equity capital, so that the balance achieved between the two will contribute to an increase in firm value (Dang & Do, 2021). Based on the

agency theory proposed by Jensen & Meckling (1976), it explains that there are differences in interests between managers as agents and shareholders or creditors (bond holders) as principals.

Shareholders want a high company value to get a large return on investment, one of the determinants of which is net profit. If funding is dominated by debt, net income will decrease because part of it is used to pay interest and principal, which can be detrimental to shareholders. However, from the creditor's point of view, large debt can be profitable because it provides consistent interest payments. If a high capital structure increases firm value, creditors will be more willing to provide additional loans with the confidence that the firm is able to pay debt and interest on time. Meanwhile, managers tend to focus on improving performance to maximize personal gains, either through stock or debt issuance. This difference in interest triggers agency conflicts between shareholders, creditors, and managers regarding capital structure decisions.

Ichwanudin et al. (2023) in their research stated that capital structure has a positive effect on firm value. The use of debt in the capital structure can increase firm value through a disciplinary mechanism against managers. When the company has debt, there is a risk of bankruptcy that must be borne by the company. If the company is unable to pay off the debt, it will threaten the liquidity of the company and the management position will also be threatened. This will make managers face pressure to show optimal performance in order to fulfill the obligation to pay interest and principal. The existence of this pressure will encourage operational efficiency and more careful decision making, which in turn can increase profitability and investor confidence. With increased performance and market confidence, the company value will potentially increase.

Another case, in a study conducted by Bui et al. (2023), which explains that a capital structure dominated by debt has a negative impact on firm value. The high use of debt in the capital structure can increase financial risk, especially when interest expense and debt repayment are difficult to fulfill. Although debt can be a management control tool, it can also trigger conflicts between shareholders and

creditors and increase agency costs due to the imbalance of interests between parties. When debt is too high, creditors will demand higher interest rates to compensate for risk, which will increase the company's burden. Meanwhile, funding through equity also has risks such as loss of control and pressure from investors. Therefore, unbalanced capital structure decisions, especially those that rely too much on debt, will tend to reduce firm value.

H₁: Capital structure affects firm value.

The Moderating Effect of Corporate Governance for Capital Structure on Firm Value

Increasing company value can be achieved through a good working relationship between company management and shareholders or other stakeholders in making financial decisions that aim to maximize capital (Amaliyah & Herwiyanti, 2019). However, according to agency theory, the unification of interests between the two parties often causes problems known as agency conflicts, where managers who have the authority to make decisions will be more likely to act in their personal interests, thus ignoring the interests of shareholders (Jensen & Meckling, 1976). As a result, decisions related to capital structure cannot be taken optimally, which in turn can hamper efforts to increase firm value. Therefore, the effective use of debt also requires supervision so that it is not misused. One form of supervision and control that can reduce agency conflicts is corporate governance (Ngatno et al., 2021).

Corporate governance is a set of rules used to control and direct all operational activities in the company so that these operational activities can run well and regularly (Monks & Minow, 2011). Corporate governance through the board structure can be a supervisory function of managerial policies and actions, including in terms of decision making related to capital structure. The existence of effective corporate governance can ensure that management decisions in using debt are really directed to value-added projects, not for personal interests. Thus, the implementation of good corporate governance is very important to strengthen the company's control function by ensuring that decisions related to capital structure are made appropriately and in line with the interests of

all stakeholders so that the company's value also increases. This is supported by several researchers, such as Wardani & Djando (2022) and Ngatno et al. (2021) which state that the existence of corporate governance can strengthen the relationship between capital structure and firm value.

These results contradict research conducted by Sari & Wahidahwati (2018), which reveals that the implementation of corporate governance can actually weaken the relationship between capital structure and firm value. This is because the implementation of good corporate governance (GCG) in some companies has not run optimally in creating transparent management, especially for investors as the main users of financial statements. When GCG has not been implemented effectively, the funds obtained by the company through funding decisions are not utilized appropriately by management. The lack of transparency in the management of the company causes inefficient allocation of funds and has the potential to harm various parties, so that it has not been able to make a significant contribution to increasing company value.

H₂: Corporate governance moderates the effect of capital structure on firm value.

RESEARCH METHOD

Types and Sources of Research Data

This study uses quantitative data. Quantitative data in this study is in the form of secondary data obtained from the 2019-2023 annual reports of food and beverage sector companies listed on the Indonesia Stock Exchange (IDX). The data was taken from the official website of the Indonesia Stock Exchange (Indonesia Stock Exchange Inc. (idx.co.id)) and the websites of food and beverage companies listed on the IDX in 2019-2023.

Research Population and Sample

The population in this study consists of all food and beverage sector companies listed on the Indonesia Stock Exchange (IDX) during 2019–2023. The sampling method applied was purposive sampling with the following criteria: (1) food and beverage sector companies that remained listed on the IDX during 2019–2023, and (2) companies that consistently published

complete annual reports for the five-year period 2019–2023, in order to provide the financial data required for the calculation of research variables, including ratios that require lagged data.

Based on these criteria, out of a total of 95 firm-year observations initially identified, 46 companies met the requirements. Since the observation period covers five years (2019–2023), this resulted in a total of 230 firm-year observations (46 companies × 5 years). Thus, the final sample used in this study consisted of 46 companies from the food and beverage sector, observed over five consecutive years.

Operational Definition and Measurement of Variables

The dependent variable in this study is firm value. Firm value is an investor's view that is often associated with stock prices (Hirdinis, 2019). The measurement of company value in this study refers to previous research as conducted by Anita et al. (2023), which is measured using the Tobin's Q ratio by summing the Market Value of Equity (MVE) with Liabilities then divided by total assets.

The independent variable in this study is capital structure, which is defined as the arrangement between funding sources derived from debt and equity, which together form the company's long-term financing structure. Measurement of capital structure variables by looking at previous research conducted by (Krisnando & Novitasari, 2021), which was measured using the Debt to Equity Ratio ratio by dividing total liabilities by total equity.

The moderating variable is corporate governance, which is defined as the company's organizational structure in establishing policies to increase company value in the long term by paying attention to stakeholders. The measurement of corporate governance in this study refers to Adinegara & Sukamulja (2021) using the Corporate Governance Index (CGI) adapted from ASEAN Corporate Governance Scorecard 2017 which composed of five sub-indices with 46 elements: Board Structure (8 elements), Board Procedures (5 elements), Disclosure (23 elements), Ownership Structure (6 elements), and Shareholder Rights (4 elements). Each element was scored 1 if the company disclosed the relevant information

and 0 if not. The scores were then aggregated and calculated into a weighted average index across the five sub-indices, producing the final CGI score for each firm.

The assessment process was conducted by the author using a structured coding guide derived from the referenced study to ensure consistency in applying the scoring criteria. Although coding was performed by a single researcher, reliability was enhanced by conducting repeated checks of the scoring process at two different times and ensuring alignment with the operational definitions in prior validated studies. This systematic approach helps minimize subjectivity and strengthen the validity of the CGI measurement.

The control variables in this study are firm size and firm growth. The measurement of firm size and firm growth variables follows the research of (Krisnando & Novitasari, 2021), where firm size is measured using the natural logarithm of total assets, while firm growth is calculated as the change in total assets from the previous year divided by total assets in the previous year. Firm size and firm growth are selected as controls because they are widely recognized in the literature as the most influential firm-level characteristics affecting firm value, particularly in emerging markets such as Indonesia (Adinegara & Sukamulja, 2021; Hermuningsih, 2012). Firm size reflects the scale of operations and market strength, while firm growth indicates investment opportunities and future performance potential. Other potential control variables, such as profitability or macroeconomic indicators were not included

in the baseline model to maintain model parsimony and avoid multicollinearity, given the limited sample size. This approach is consistent with prior empirical studies that emphasize size and growth as sufficient baseline controls in capital structure–firm value models.

Data Analysis Technique

The analytical method used in this research is moderation regression analysis with using the help of Statistical Package for the Social Sciences (SPSS) Version 25 data processing tools. To obtain a feasible and valid regression equation, descriptive statistical tests and classical assumption tests in the form of normality tests, multicollinearity tests, heteroscedasticity and autocorrelation tests are required before conducting moderation regression tests.

RESULTS AND DISCUSSIONS

Descriptive statistics is one of the data analysis methods used to describe data descriptively. In this study, descriptive statistics describe the maximum, minimum, average, and standard deviation values. The results of descriptive statistical analysis with a total of 230 observations as presented in table 1 show that the firm value variable has a minimum value of 0.16, a maximum value of 4.98, a mean value of 2.3383 and a standard deviation value of 0.88430.

The capital structure variable has a minimum value of -4.86, a maximum value of 92.50, a mean value of 1.4304 and a standard deviation value of 6.25108. The capital structure exhibited extreme values, reflecting

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Firm Value	230	0,16	4,98	2,3383	0,88430
Capital Structure	230	-4,86	92,50	1,4304	6,25108
Corporate Governance	230	0,59	0,98	0,8189	0,09482
Company Size	230	24,20	32,41	28,5510	1,71759
Company Growth	230	-0,85	6,41	0,1317	0,89382

Table 2. Normality Test

N	Normal Parameters		Asmp. Sig. (2-tailed)
	Mean	Std. Deviation	
230	0,0000000	0,81367168	0,200

Table 3. Multicollinearity Test

Variable	Collinearity Statistics	
	Nilai Tolerance	VIF
Capital Structure	0,995	1,005
Corporate Governance	0,945	1,058
Company Size	0,910	1,099
Company Growth	0,960	1,042

Table 4. Heteroscedasticity Test

Variable	Sig.
Capital Structure	0,824
Corporate Governance	0,158
Company Size	0,876
Company Growth	0,150

Table 5. Autocorrelation Test

Total Cases	Asymp. Sig. (2-tailed)
230	0,000

Table 6. Autocorrelation Test (Cochrane Orcutt)

Total Cases	Asymp. Sig. (2-tailed)
229	0,389

Table 7. F Test

Model	Df	F	Sig.
Regression	4	14,559	0,000
Residual		224	
Total		228	

Table 8. Adjusted R Square

Model	R	R Square	Adjusted R Square
1	0,454	0,206	0,192

Table 9. Moderated Regression Analysis

Variable	Unstandardized Coefficients		T	Sig.
	B	Std. Error		
(Constant)	3,227	0,792		
Capital Structure	-0,417	-2,492	-2,492	0,013
Company Size	-0,077	-1,966	-1,966	0,050
Company Growth	-0,346	-6,236	-6,236	0,000
Capital Structure*Corporate Governance	0,800	2,472	2,472	0,014

Source: Processed Data (2025)

companies with negative equity or very low equity bases. To mitigate the potential influence of these outliers, the capital structure was winsorized at the 1st and 99th percentiles. This method reduces the effect of extreme observations while retaining all firms in the sample.

Corporate governance has a minimum value of 0.59, a maximum value of 0.98, a mean value of 0.8189 and a standard deviation value of 0.09482. The company size control variable has a minimum value of 24.20, a maximum value of 32.41, a mean value of 28.5510

and a standard deviation value of 1.71759. Company growth has a minimum value of -0.85, a maximum value of 6.41, a mean value of 0.1317 and a standard deviation value of 0.89382.

The classical assumption test is carried out before conducting hypothesis testing. First, the normality test as presented in table 2 shows that the significance value is $0.200 > 0.05$. Thus, it can be concluded that the residual value is normally distributed. Second, the multicollinearity test in table 3 shows that the VIF value between variables is < 10 and the tolerance

value also shows < 0.10 .

Before creating the interaction term (Capital Structure \times Corporate Governance), we tested for multicollinearity. The results showed that all Variance Inflation Factor (VIF) values were close to 1 and far below the common threshold of 10 (as stated in table 3), indicating no multicollinearity among the variables. Although mean-centering is often suggested in moderation analysis to reduce potential correlation between the interaction term and its components, in this study the multicollinearity test results confirmed that the issue was not present. Therefore, the moderation model was estimated without centering, and the results remain robust.

Third, the heteroscedasticity test with the Glejser method according to table 4 shows that each independent variable in this study is > 0.05 , so it can be concluded that there are no symptoms of heteroscedasticity between variables in this study. Fourth, the autocorrelation test with the runs test shows that the significance value is 0.000 or less than 0.05, which means that there are symptoms of autocorrelation so that healing is carried out using the cochrane orcutt method. The results of testing autocorrelation with cochrane orcutt in table 6 show that the significance value is 0.389, which means > 0.05 . Therefore, it can be stated that there is no autocorrelation in this study so that the classical assumptions are met.

Hypothesis testing for the F test as presented in table 7 shows that the significance value is 0.000, which means less than 0.05 so that the regression model in this study is feasible to use to predict the dependent variable firm value. The Adjusted R Square value is 0.192 or equal to 19.2%, which can be concluded that the relationship between the independent variable and the dependent variable in this model is still relatively weak. However, this level of explanatory power is not uncommon in corporate governance and finance research, where firm value is influenced by many external factors. The relatively low R square also suggests the possibility of omitted variables, such as profitability, liquidity, investment policies, or macroeconomic conditions, which were not included in this study to maintain parsimony and focus on the moderating effect of corporate governance.

This limitation indicates that future research could extend the model by incorporating additional firm-level and macroeconomic variables to improve explanatory power and reduce potential omitted variable bias.

The T test is conducted to determine whether the independent variable has an effect or not on the dependent variable (Ghozali, 2018). The test results as presented in table 9 show that capital structure has a regression coefficient value of -0.417 with a significance level of $0.013 < 0.05$, which means that capital structure negatively affects firm value so that the first hypothesis is accepted. Corporate governance moderation variable has a regression coefficient value of 0.800 with a significance level of $0.014 < 0.05$, which means that corporate governance can moderate the effect of capital structure on firm value so that the second hypothesis is accepted.

The Effect of Capital Structure on Firm Value

The test results show that the capital structure negatively affects the firm value, which indicates that the higher the capital structure, the firm value tends to decrease. According to agency theory, companies with low debt levels tend to have less risk than companies with high debt loads. Excessive use of debt can actually reduce the effectiveness of company performance. This is due to the emergence of a conflict of interests between shareholders and creditors, who have different views on risk and profit.

Shareholders generally want a large profit or return on investment even though it is accompanied by high risk, while creditors prioritize investment security in the hope of stable returns and low risk. On the other hand, managers as agents can sometimes make decisions that benefit certain parties, which are not in line with the interests of the owners of capital or principals. This difference in interests will reduce investor confidence and worsen market perceptions of the company so that it can reduce company value.

This finding is in line with research conducted by Bui et al. (2023), which revealed that a capital structure dominated by debt can reduce firm value. High debt can trigger conflicts between shareholders and creditors

due to differences in interests, which then increase agency costs. When debt is too high, creditors will demand higher interest as risk compensation, which will increase the company's burden. Thus, the high use of debt in the capital structure can increase financial risk, especially when interest expense and debt repayment are difficult to fulfill. This condition not only jeopardizes business continuity, but also has the potential to cause bankruptcy.

On the other hand, issuing shares can be an alternative to raising large amounts of capital to support business expansion. However, this also presents challenges, such as high issuance costs, pressure to continue to grow, and the risk of losing control if investor expectations are not met, which in turn can still reduce the value of the company. This is in accordance with Luu (2021) explanation, that a high level of debt in the capital structure can raise investors' concerns about the quality of the company, thus making them reluctant to invest, which results in a decrease in company value. Therefore, managers need to maintain an optimal balance between debt and equity to avoid negative market assessments of the company's value and investment potential.

The Moderating Effect of Corporate Governance for Capital Structure on Firm Value

The test results show that corporate governance is able to moderate the effect of capital structure on firm value, which means that any increase in corporate governance can reduce the negative impact of the effect of capital structure on firm value. The findings in this study are in line with the agency theory proposed by Jensen & Meckling (1976), which states that managers tend to put their interests above the interests of shareholders and other stakeholders. This can trigger agency conflicts that can ultimately affect the value of the company. In an effort to reduce these conflicts, principals try to limit agent actions through incentives and monitoring mechanisms. One form of supervision that can be applied is through the implementation of corporate governance.

According to Ngatno et al. (2021) the existence of corporate governance mechanisms in Indonesia, especially in the form of control and supervision of capital structure decisions,

can contribute to increasing firm value. The presence of the board of commissioners plays a role in limiting the opportunistic behavior of managers, so that decisions regarding capital structure can be taken carefully and do not pose excessive debt risk. Thus, the existence of a supervisory mechanism through corporate governance can minimize agency conflicts by ensuring that managers' actions in decision making are carried out appropriately and in line with the interests of all stakeholders.

The findings of this study are also in line with Wardani & Djando (2022), which state that the implementation of good corporate governance reflects the company's ability to manage operations and resources effectively, including in managing the capital structure. Companies that implement good governance tend to be better able to balance the use of debt and equity, so as to avoid excessive financial risk. Conversely, weak management has the potential to cause failure in managing the capital structure, which in turn can increase the risk of bankruptcy.

Thus, it can be concluded that a high capital structure tends to have a negative impact on firm value. However, when companies implement good governance with effective oversight through the board structure, they can reduce the negative impact of high debt levels (Muhammad et al., 2021). Companies with good governance in place can help ensure that financial decisions, including those related to capital structure, are taken prudently and in line with all stakeholders (Muhammad et al., 2021). This in turn can increase investor confidence and encourage an increase in the company's market value.

CONCLUSIONS

The results show that capital structure negatively affects firm value, which means that a capital structure that uses more debt than equity tends to reduce firm value. Corporate governance moderates the effect of capital structure on firm value, which means that although capital structure tends to have a negative impact on firm value. However, when companies implement good governance, they can reduce the negative impact of high debt levels.

This research is only limited to the use of DER ratio in measuring capital structure and Tobin's Q ratio in measuring firm value so that it does not reflect all aspects that can affect these variables. For future researchers, it is expected to use other indicators such as Long-Term Debt to Total Assets or Market to Book Ratio (MBR) in future studies to obtain more comprehensive results. In addition, this study discussed using agency theory as the main basis in explaining the relationship between capital structure and firm value as well as the moderating role of corporate governance so that it only focuses on conflicts of interest between agents and principals, so that future researchers can consider other theoretical approaches such as stakeholder theory or stewardship theory, in order to provide a broader and more comprehensive understanding of the influence mechanism in increasing firm value, as well as to capture dynamics that may not be adequately explained by agency theory.

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