



Moderating Effect of Board Structure on Equity Market Timing-Capital Structure Relationship of Indonesian Manufacturing Companies

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Abstract

Equity Market Timing is a relatively new capital structure theory taken by management to get sources of funds used by companies as corporate operational activities. This study examines and examines the effect of market timing equity as measured by using the (MTB) on capital structure as measured by using the book leverage ratio with the moderation of the board of directors structure. The sample used in this study was 80 companies. The data analysis method used is multiple regression. The results showed that MTB harmed capital structure. The moderating variable size of the board of commissioners and representatives of the board of directors weakens the negative impact of MTB on capital structure. An audit committee that did not measure the weaknesses or negative effects of MTB on capital structure.

Efek Moderasi Struktur Dewan Direksi pada Hubungan Equity Market Timing-Struktur Modal Perusahaan Manufaktur Indonesia

Abstrak

Equity Market Timing merupakan teori struktur modal relatif baru yang digunakan oleh manajemen untuk mendapatkan sumber dana bagi perusahaan dalam kegiatan operasional perusahaan. Penelitian ini menguji dan menganalisis pengaruh equity market timing diukur dengan menggunakan Market To Book Ratio (MTB) terhadap struktur modal yang diukur dengan menggunakan book leverage ratio dengan moderasi struktur dewan direksi. Penelitian ini menggunakan sample sebanyak 80 Perusahaan. Metode analisis data yang digunakan adalah regresi berganda. Hasil penelitian menunjukkan bahwa MTB berpengaruh negatif terhadap struktur modal. Variable moderasi ukuran dewan komisaris dan proporsi dewan direksi memperlemah pengaruh negatif dari MTB terhadap struktur modal. Ukuran komite audit tidak memperlemah atau memperkuat pengaruh negatif dari MTB terhadap struktur modal.

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Managers must make a capital-structured decision that is very important to consider. Capital is an important element of companies to run their corporate operational activities and corporate investments. Besides that, a capital-structured decision also influences the corporate values in the future. Financial managers must determine the way to reach an optimum combination of the selected corporate financial resources to maximize the corporate share value (Aktas, Croci, & Petmezas, 2015).

Bringham & Huston (2011) explain capital structured policy aims to gain source combinations that will minimize the capital cost.

A relatively new capital structure theory is *equity market timing* (EMT), proposed by (Baker & Wurgler, 2002). It combines the corporate market value and the financial policy. Companies chase strategies of determining the equity market timing by issuing the stocks when the corporate value is high. Then, companies will sell the share when the corporate value is low. The reason is - when the corporate value is high, the equity borne by companies is lower and vice versa. Therefore, companies can obtain lower equity capital costs. (Baker & Wurgler, (2002) applied the MTB variable as the market value indicator influenced by capital structure. The term *equity market timing* is to use the temporal fluctuation of relative share value toward the other capital component values.

Worthington & Higgs, (2005) found that Indonesia had a weak-form-inefficient market type. This inefficient capital market situation encourages the equity market timing theory implementation in the capital structure. Many studies have investigated the influences of equity market timing on capital structures. Baker & Wurgler, (2002) found the negative and significant influence of MTB ratio toward the debt level changes. It meant higher MTB led to lower debt. It indicated a company followed the *equity market timing* theory. Zavertiaeva & Nechaeva, (2017), Mahajan & Tartaroglu, (2008),

Huang & Ritter, (2005) and Chicti & Bougatef, (2010) confirmed this finding.

In Indonesia, studies about *equity market timing* have various results. Sulistyowati, (2012), Setyawan (2008), and Givari, (2007) confirmed the theory of EMT. It means MTB has a negative correlation toward the capital structure. Taurisia (2013) found different results. The author found MTB had positive and significant influences on the corporate modal structures. Hildanengsih (2004) showed that companies in Indonesia did not follow the MET theory when it came to financing. The companies did not pay attention to the security and the plan. They did not take high-value MTB to issue new shares. Studies about EMT were inconsistent. Most described studies only explained the EMT influence on the capital structure but they did not explain the moderating effect of the board of director structures toward the capital structures. This addition, the moderating effect of the board of directors structure is interesting to investigate.

The structures of the board of directors have important implications to determine the capital structure decision. It is the main organ of authorized and responsible incorporation to manage the corporation for the sake of the company and the external and internal corporate representatives Fama, 1980; Fama & Jensen, 1983; Kochar & David, 1996; Maung, 1997). Based on state company law, Indonesia has two-tier board structures. They are the supervisory board and the management board. The management board manages the corporate daily management led by a managing director. The director is responsible to the shareholder and the supervisory board. The supervisory board is led by President Commissioner, on behalf of the shareholders. He acts as the managerial supervisor.

Helland & Sykuta (2004; 2005) and Weisbach (1988) explain that the supervisory board supervises, guides, penalizes, rewards, and makes critical decisions. The supervisory board

could employ or stop a manager. The board can take the consultative role by making corporate business strategies. The members of the supervisory board can recognize the mispricing situation and use it to receive low capital costs when the share value is very high.

Based on the arguments, the supervisory board structure could strengthen or weaken the equity market timing because the board is the main managerial action monitor. It has the main role to check the managerial decision and determine the capital structure decision whether the company will take the loan or issue the equity. In this case, the management refers to the management board and its ranks. The management board is responsible to the shareholders and the supervisory board. The decision made by the director will not run properly if the corporate supervisory board does not grant it.

The structure of the board direction is grouped into three. The first group is the supervisory board that refers to the number of commissioners in a company. The supervisory board composition moderates the negative impacts of capital structure and the MTB correlation toward the capital structure. Anderson et al, cited in Abor & Abor (2019) found lower debt cost at the larger supervisory board because the creditors perceived this company as an effective financial monitor. Thus, the size of the supervisory board reflects excellent corporate governance. Wen, Rwegasira & Bilderbeek (2002) explain that a larger size of the supervisory board could increase the corporate debt because the company has excellent monitoring. With excellent corporate governance, reflected on the size of the corporate supervisory board, it could weaken the negative effect of EMT on the corporate capital structure.

Second, the independent supervisory board is a part of a portion of non-executive (independent) commissioners in a company. The

presence of an independent supervisory board could improve the board's effectiveness to promote managerial monitoring and controlling as the representatives of the shareholders (Fama & Jensen, 1983; Weisbach, 1988; Gunasekarage & Reed, 2008). The independent commissioners have stronger incentives to monitor and control the opportunistic behaviors of managers and to improve the reputation and the corporate images in the labor market with lower debt to protect themselves from bankruptcy risk (Borokhovich, Brunarski, & Harman, 2005). Thus, a higher proportion of independent supervisory boards weakens the negative effect of EMT on the capital structure. It is because the company could easily receive external funding via debt.

Third, the audit board is an established committee that is responsible to the supervisory board. It also assists the execution of the supervisory board's tasks and functions. Kyereboah-Coleman & Biekpe, (2006); Kajol & Sunday, (2008) argue that an audit committee with a larger size seems effective to monitor and control opportunistic managerial behaviors, by reducing the cash flow via the use of large-scale debt. Moreover, the committee is usually skillful and experienced. Thus, there is an interaction between the audit committee and the equity market timing. The interaction could weaken the negative effect of EMT and the corporate capital structures.

This research has three contributions to the existing literature works. The first one, the general one, is for the previous studies that explain the effect of EMT toward the capital structures without further explanations on the moderating effect of the board of director structures toward the capital structures. The second contribution is to enrich the EMT studies about capital structures in Indonesia that cause controversies. Third, it deals with the absence of reasonable agreement about corporate capital structure selection. Therefore, this addition, the moderating effect of

the board of directory structure, is interesting to investigate. Besides that, this research measured profitability, tangibility, and corporate size as the variables that control the correlation between the independent and the dependent variables without external influential factors. Based on the explanation, the researchers are interested to review the MTB effects on the capital structure as the equity market timing measurement, moderated by the corporate board directions, listed in IDX.

From the explained problems, this research examined the EMT effect, measured with MTB toward the capital modal structures, moderated by the direction board structures. The capital structure in this research used the book leverage variable. On the other hand, the structures of the direction board used three measurements. They were the supervisory board, the proportion of the independent direction board, and the audit committee board.

This research aims to analyze and examine the MTB effects toward the capital structure as the measurement of equity market timing, moderated by the structures of the direction board, in Indonesia manufacturing companies.

METHOD

This basic research used design to develop the previous promoted researches. Theoretically, this research used a quantitative approach that covered the quantitative data to prove a theory.

The applied data type was secondary data. The secondary data were obtained from the IDX publications, in the form of manufacturing corporate annual reports, listed in IDX, from 2013-2018. The researcher used the obtained data from IDX www.idx.co.id.

There were 80 companies as the research samples. The dependent variable: *book leverage ratio*. The independent variable: *market to book ratio*

The moderating variable: the size of the supervisory board, the proportion of the independent supervisory board, and the size of the audit committee.

The control variables: profitability, tangibility, and corporate size.

The researchers took the sample with *the purposive sampling* technique. This method is a selecting method with specific criteria. They are

1. Companies listed in IDX
2. Companies from the period of 2013 until 2018
3. Companies that already published their annual report, ended on December 31.
4. Companies with rupiah currency used in their reports
5. Companies with the detailed information required for this study

The researchers analyzed the data with *pooled method* or panel data. It had the purpose to find out the influence of dependent variables directly with a regression equation model of dependent variable. There are two model used in this research as follow:

Model 1:

$$CAPSTRUC_{i,t} = \beta_0 + \beta_1 MTB_{i,t-1} + \beta_3 MTB_{i,t-1} * BS_{i,t-1} + \beta_4 ROA_{i,t-1} + \beta_5 TANG_{i,t-1} + \beta_6 SIZE_{i,t-1} + \epsilon_{i,t}$$

Model 2:

$$CAPSTRUC_{i,t} = \beta_0 + \beta_1 MTB_{i,t-1} + \beta_3 MTB_{i,t-1} * BI_{i,t-1} + \beta_4 ROA_{i,t-1} + \beta_5 TANG_{i,t-1} + \beta_6 SIZE_{i,t-1} + \epsilon_{i,t}$$

Model 3:

$$CAPSTRUC_{i,t} = \beta_0 + \beta_1 MTB_{i,t-1} + \beta_3 MTB_{i,t-1} * ADT_{i,t-1} + \beta_4 ROA_{i,t-1} + \beta_5 TANG_{i,t-1} + \beta_6 SIZE_{i,t-1} + \epsilon_{i,t}$$

In which :

CAPSTRUC: The capital structures of company (i) year (t)

MTB : *Market to Book Ratio* of company (i) in a period of (t-1)

BI : the size of corporate board (i) year (t-1)
 BI : the independent corporate director (i) year (t-1)
 ADT : The corporate audit committee (i) year (t-1)
 ROA : The corporate profitability (i) period (t-1)
 TANG: The corporate tangibility (i) period (t-1)
 SIZE : the corporate size (i) period (t-1)

The following applied method was the inferential statistic method to examine the hypotheses. The analysis stages before the linear regression test were descriptive, normality, heteroscedasticity, and autocorrelation tests.

The operational definitions describe the applied variable measurements in this research to avoid ambiguity. Here are the definitions of the variables.

1. The Dependent Variable:

The capital structure refers to a proportion or comparison in determining the corporate necessity fulfillment (Ratih, 2019). The capital structures are measured with *book leverage ratio* with this formula:

$$CAPSTRUC_{i,t} = \frac{Total\ Debt_{i,t}}{Total\ Asset_{i,t}}$$

2. The Independent Variable:

The equity market timing refers to a corporate practice to separate issuing the shares when the market value is high and to re-purchase the share when the market value is low, done by the company in the year (t-1) (Baker & Wurgler, 2002). The equity market timing is measured by MTB with this formula:

$$MTB_{i,t-1} = \frac{Total\ debt_{i,t-1} + Market\ capitalization_{i,t-1}}{Total\ Asset_{i,t-1}}$$

3. The Moderating Variable :

1. *Board size* refers to the numbers of the supervisory board in a company (Kaymak

& Bektas, 2008; Perrini *et al.*, 2008 cited in Tarus & Ayabei, 2015). The formula of *board size* is:

$$BS_{i,t-1} = \sum\ supervisory\ board_{i,t-1}$$

2. *Board independence* refers to a proportion or ratio of non-executive supervisory board or the independence in a company. It also refers to the percentage of the members of independent commissioners toward the numbers of the supervisory board members (Morellec, Nikolov, & Urhoff, 2012). The formula of board independence measurement is:

$$BI_{i,t-1} = \frac{\sum\ independen}{\sum\ t\ supervisory\ board_{t-1}\ supervisory\ board_{t-1}}$$

3. *The audit committee* refers to the established committee to assist the tasks and functions of the supervisory board. It is also responsible to the supervisory board Tarus & Ayabei, 2015 The applied formula is:

$$ADT_{i,t-1} = \sum\ Komite\ audit_{i,t-1}$$

4. The Control Variable

1. ROA refers to the corporate capacity or capability to use the assets, including the corporate shareholders to earn a profit (Chen, 2004). The ROA formula is:

$$ROA_{i,t-1} = \frac{NI_{i,t-1}}{total\ asset_{i,t-1}}$$

2. Tangibility refers to the asset capability as the guarantee to ensure the current liabilities (Farooq, 2015). Here is the tangibility notation:

$$TANG_{i,t-1} = \frac{fixed\ asset_{i,t-1}}{Total\ Asset_{i,t-1}}$$

3. The corporate size refers to the benchmark of corporate size by observing the corporate total asset (Riyanto, 2010). The corporate size notation is:

$$SIZE_{i,t-1} = Ln (Total\ Asset)_{i,t-1}$$

RESULTS

The multiple linear regression analysis results are from the *Statistical Package for Social Science* (SPSS) to find out the MTB effects toward the capital structure variable, moderated by the structures of manufacturing corporate board direction, listed in IDX, from 2013 until 2018. Here are the multiple linear regression results. Results of model 1 are shown in Table 1 and regression results for model 2 is depicted in Table 2, and regression results of model 3 are shown in Table 3.

Table 1 shows the following regression model equation:

$$\text{CAPSTRUC}_{i,t} = 0,104 - 0,055 \text{ MTB} + 0,031 \text{ MTB*BS} - 0,723 \text{ ROA} - 0,032 \text{ TANG} + 0,014 \text{ SIZE} + \varepsilon_{i,t}$$

The regression result shows that the *Market to Book Ratio* (MTB) and *Return on Asset* (ROA) have negative and significant results toward the capital structure, the book leverage. The corporate size, as the moderator (MTB*BS), has positive and significant results toward the

capital structure (book leverage). On the other hand, the tangibility (TANG) and the corporate size (SIZE) do not have a significant correlation toward the capital structure (book leverage).

The constant value is 0.104, showing that if the independent variable is assumed constant, the capital structure (book leverage) increase by 10.4%. The R-square value or the estimated coefficient is 0.243, showing *the market to book ratio*, the size of the supervisory board, the profitability, the tangibility, and the corporate size could explain the *book leverage* as the dependent variable with a percentage of 24.3%. On the other hand, the other percentage, 75.7%, was from variables outside of the model.

The regression result shows the F value 16.275 with a significant level is 0.000. It shows that simultaneously, the variables MTB, the size of the board (BS), as the moderating variable, and the profitability, tangibility, and corporate size as the control variables significantly influence the capital systolic-Blood Pressure Variable (book leverage). thus, the model is averagely excellent to predict the corporate capital structure.

Table 1. The Multiple Linear Regression Analysis Results of Model 1

Model	Coefficient	t	Sig.
Constant	0,104	0,432	0,666
MTB	-0,055	-3,412***	0,001
MTB*BS	0,031	1,910*	0,057
ROA	-0,723	-5,984***	0,000
TANG	-0,032	-0,617	0,537
SIZE	0,014	1,618	0,107
R	0,493		
R square	0,243		
Adjusted R ²	0,228		
F	16,275		
Sig. F	0,000		

Significance on levels *1%, **5%, ***10%

Source: The processed data

Table 2. The Multiple Linear Regression Analysis Results of Model 2

Model	Coefficient	t	Sig.
Constant	0,153	0,804	0,422
MTB	-0,097	-3,951***	0,000
MTB*BI	0,076	2,802***	0,005
ROA	-0,695	-5,757***	0,000
TANG	-0,027	-0,545	0,586
SIZE	0,011	1,716*	0,087
R	0,503		
R square	0,253		
Adjusted R ²	0,238		
F	17,145		
Sig. F	0,000		

Significance on levels *1%, **5%, ***10%

Source: The processed data

Table 2 shows the following regression model equation:

$$\text{CAPSTRUC}_{i,t} = 0,153 - 0,097 \text{ MTB} + 0,076 \text{ MTB*BI} - 0,695 \text{ ROA} - 0,027 \text{ TANG} + 0,011 \text{ SIZE} + \varepsilon_{i,t}$$

The regression result of model 2 shows that the *Market to Book Ratio* (MTB) and *Return on Asset* (ROA) have negative and significant results toward the capital structure, the book leverage. The corporate size as the moderating variable (MTB*BI) and SIZE has a positive and significant correlation toward the capital structure (book leverage). On the other hand, the tangibility (TANG) does not have a significant correlation toward the capital structure (book leverage).

The constant value is 0.153, showing that if the independent variable is assumed constant, the capital structure (book leverage) increase by 15.3%. The R-square value or the estimated

coefficient is 0.253, showing the *market to book ratio*, the size of the supervisory board, the profitability, the tangibility, and the corporate size could explain the *book leverage* as the dependent variable with a percentage of 25.3%. On the other hand, the other percentage, 74.7%, was from variables outside of the model.

The regression result shows the F value 17.145 with a significant level is 0.000. It shows that simultaneously, the MTB, the proportion of the independent supervisory board (BI), as the moderating variables, and the profitability, tangibility, and corporate size, as the control variables, influence significantly the capital structures (book leverage). Thus, the model is averagely excellent to predict the capital structure (book leverage).

The next results of linear regression is calculated based on model 3 which sre shown in Table 3 as follow:

Table 3. The Multiple Linear Regression Analysis Results of Model 3

Model	Coefficient	t	Sig.
Constant	0,263	1,415	0,158
MTB	-0,060	-3,514***	0,001
MTB*ADT	0,033	2,055**	0,041
ROA	-0,770	-6,256***	0,000
TANG	-0,017	-0,330	0,742
SIZE	0,008	1,244	0,214
R	0,493		
R square	0,243		
Adjusted R ²	0,228		
F	16,279		
Sig. F	0,000		

Significance on levels *1%,**5%, ***10%

Source: The processed data

Table 3 shows the following regression model equation:

$$\text{CAPSTRUC}_{i,t} = 0,263 - 0,060\text{MTB} + 0,033\text{MTB*ADT} - 0,770\text{ROA} - 0,017\text{TANG} + 0,008\text{SIZE} + \varepsilon_{i,t}$$

The regression result shows MTB and *Return on Asset* negatively and significantly influence the capital structure (book leverage). The corporate size as the moderating variable (MTB*ADT) has a positive and significant correlation toward the capital structures (book leverage). On the other hand, the tangibility (TANG) and the corporate size (SIZE) do not have a significant correlation toward the capital structure (book leverage).

The constant value is 0.263, showing that if the independent variable is assumed constant, the capital structure (book leverage) increases by 26.3%. The R-square value or the estimated coefficient is 0.243, showing *the market to book ratio*, the size of the supervisory board, the profitability, the tangibility, and the corporate size could explain the *book leverage* as the dependent variable with a percentage of 24.3%. On the other hand,

the other percentage, 75.7%, was from variables outside of the model.

The regression result shows the F value 16.279 with a significant level is 0.000. It shows that simultaneously, the MTB, the audit committee (ADT), as the moderating variables, and the profitability, tangibility, and corporate size, as the control variables, influence significantly the capital structures (book leverage). Thus, the model is averagely excellent to predict the capital structure (book leverage).

DISCUSSION

Based on the regression results of Model 1, 2, and 3, the MTB significantly and negatively influenced the corporate capital structure (book leverage ratio). The corporate capital structure is the summation of the corporate efforts to adjust EMT during the previous period. Based on the EMT theory, companies will issue equity when the market value is high and purchase equity when the market value is low Baker & Wurgler, (2002) with *the market to book ratio* as the indicator of *equity market timing*. The results showed that MTB

negatively correlated toward the corporate capital structures in which the companies would issue the equity when the share values were relatively higher than the book value that had lower leverage. The EMT practice is a behavior that uses the temporal fluctuation paid by the equity. One of the consequences is the optimization of the shareholders' wealth by forfeiting the new shareholders (Jairo, 2006).

This finding is in line with Indonesia's market that is inefficient with a weak form. This inefficient capital market situation encourages the equity market timing theory implementation in the capital structure. Worthington & Higgs, (2005) also confirmed this result. They investigated the weak-market efficiency in Asian Stock Exchange. They checked the daily return of the Asia Stock Exchange, including Indonesia, with *random walk* and series of correlation coefficients and running tests. The tests showed that the Asia Stock Exchange market, including Indonesia, was weak and inefficient.

In Indonesia Stock Exchange, companies could apply *an equity market timing* strategy in their funding policy because they frequently had mispricing. It refers to the differences between the market value and the corporate book value (Yunita, Indiatuti, Ariawati & Febrian, 2018). It was observable from the motion of the *Market to Book Ratio* average of the manufacturing companies in 2018. It showed that mispricing of most MTB was higher than 1. Besides that, companies issued the shares by following the increase of *market to book value* of the previous period. Some companies used this situation to apply the EMT strategy to determine the funding policy (Yunita et al, 2018).

Model 1, 2, and 3 showed the profitability of the corporate ROA negatively and significantly influenced the corporate capital structures. It was observable from the regression results with less than 1% significant level. Therefore, higher corporate profitability led to lower corporate

debt. High-earning corporations used their internal resources instead of external resources. *Pecking order theory* also proved that higher-earning corporations and more liquid corporations had lower debt than corporations with low earning and lower liquid sources Sheikh & Wang, (2012).

Model 1, 2, and 3 showed the tangibility differences did not influence significantly the corporate capital structures. It was observable from the regression result with a higher percentage than 10% of the significant level. Therefore, the size of asset tangibility did not influence the high and low debt. This research confirmed the *trade-off theory*. It proved that higher corporate assets made companies easier to run up for improving their structures of partnership capital with the fixed asset as the guarantee. It was not significant due to some types of the applied assets as the corporate guarantees. Jennifer and Philip (2015) explain that properly, such as machines and other unused tools, can be the guarantee so it will not influence the corporate debt ratio. Machine and tools are specific instruments and designed for specific purposes. It makes those assets cannot be sold easily or used as a guarantee for debt. They also cannot lower the debt cost so that they do not influence the debt ratio.

In model 1, the moderating effect of the supervisory board size on the impact of MTB toward the capital structures showed weak and negative influences toward the corporate capital structures. It was because the interaction result of MTB*BI showed an insignificant level, lesser than a percentage of 10%. The greater size of the board led to more effective monitoring and control of cash flow management procedures while using it. Jensen (1986) Also argue that the supervisory board becomes one of the corporate monitoring functions. The control function by the supervisory board has practical forms of the agency theory. The supervisory board provides the main internal mechanism to manage the

monitoring function and manage the opportunistic behaviors of the clients in a company. The composition of the supervisory board would be effective to control and manage the managerial behaviors in utilizing the cash flow.

Abor & Abor (2009) found that lower debt cost for a large supervisory board size made creditors perceived the company effectively managed their financial accounting processes. Based on the argument, a larger supervisory board size led to lower debt costs. Thus, if a company wants to receive the external fund, the company must issue the debt besides the equity.

In model 2, the moderating effect of the supervisory board size on the impact of MTB toward the capital structures showed that the proportion of independent supervisory boards weakened the negative effects of MTB toward the corporate capital structure. It was because the interaction result of MTB*BI showed an insignificant level than 1%. It was in line with the assumption that an independent supervisory board was the part of non-executive commissioners in incorporation. The Independent supervisory board has an important role in the effective monitoring process and making decisions of excellent corporate governance. Jensen (1986) and Sunitha & Ratnam (2019) argued that companies dominated by independent commissaries had effective monitoring system corporate governance action to limit the managerial control toward the cash flow. With the independent commissary, companies would be able to protect the shareholders' wealth in the form of debt payment and dividends.

The perspective of *resource dependency theory*, developed by Pfeffer & Slancick (1978), explains that independent commissary could improve the corporate capability to protect the companies from the external environment, reduce uncertainty, and select sources that can improve

the corporate capability to collect funds. Based on the statement, companies tend to use higher debt levels because they had broader external networks and capabilities to connect the company with the debt capital provider. Therefore, the proportion of independent supervisory boards weakened the negative impact of MTB on the capital structures.

In this second model, the corporate size (SIZE) had a positive and significant result with a significant level under 10%. It is in line with Abor & Abor (2009). They found that larger corporate sizes led to higher debt used in their capital structures. It was because large companies had diversified and stable cash flow. Thus, the risk was lower with a higher level of debt payment and a lower risk of bankruptcy. Therefore, those companies could tolerate the high debt ratio. This finding is in line with Klapper & Love (2004), Bohren & Odegaard (2003), and Larcker, Richardson & Tuna (2004). Larger companies had more resources, such as skillful managers than moderate and small companies. This resource could make them more efficient and attractive for lenders. It showed that large companies were different in terms of debt management and tended not to easily bankrupt. Therefore, larger companies had higher corporate debt levels.

In the third model, the moderating effect of the audit committee on the MTB effect toward the capital structures showed a negative influence. It was because the interaction result of MTB*ADTI showed a significant level lower than 5%. It is in line with the explanation that more members of the audit committee led to more accurate, reliable, and qualified financial reports (Detthamrong, Chancharat, & Vithessonthi, 2017). The trustworthy information could reduce the uncertainty of the agents about the corporate prospect. Thus, it decreased the asymmetric information between the principals and the agents. If the agency conflict decreased, the corporate performance improved and easily obtained external funding with cheaper cost

besides issuing the equity. It was by issuing debt (Sewpersadh, 2019). Therefore, if a company had an audit committee, it weakened the negative effect of *equity market timing* toward the capital structure.

CONCLUSION AND SUGGESTION

From the discussion of study results, it can be concluded some points. Firstly, higher MTB made companies used funding from the equity because it was cheaper and the companies could gain more profits instead of issuing the equity. Thus, the funding via issuing debt would decrease. It showed the negative impact of MTB on the capital structures.

Secondly, the size of the supervisory board and the proportion of independent supervisory boards weakened the negative impact of MTB on the capital structures. It was observable from the larger size of the supervisory board and the independent supervisory board proportion led to higher debt (book leverage). It made the companies having lower possibilities to use the equity or issuing the equity as funding sources. Therefore, it weakened the negative impact of MTB on the capital structures.

In addition, the audit committee weakened the negative impact of MTB on the capital structures. It was because more members of the audit committee led to the more accurate, reliable, and qualified financial report. Thus, creditors would more believe and the companies could receive the funding via debt.

Furthermore, profitability as control variable, showed a negative and significant influence on the capital structures. On the other hand, the tangibility showed no influence on the corporate capital structures.

Therefore, this study recommended some suggestions. Companies should pay attention to the proportion of the external funding uses to

receive optimal capital structure. Thus, the companies could use it to improve corporate values. Companies should be selective in considering the investment because it influences corporate funding decisions.

Next, companies must pay attention to the corporate internal factors, such as the size of the supervisory board, the proportion of the independent supervisory board, and the size of the audit committee. It is important because the structures of the supervisory board could influence the corporate funding decision. It is because the supervisory board is the highest board to determine the funding corporate decision of companies.

Future investigations should develop these research results by using all non-financial sector companies and adding the other variables that can directly influence the equity market timing and the capital structures.

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