The Role of Good Corporate Governance in Mediating the Capital Structure of Relationships to The Performance of Type A Hospitals in Indonesia

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Abstract:
The purpose of this study is to examine the role of corporate governance in mediating the relationship between capital structure and financial performance. Research related to corporate governance has been widely studied. However, this research focus at corporate governance as an independent variable that affects financial performance. The aspect of corporate governance acting as a mediator has not been explored much. Another novelty of this research is that it is mostly done in the private sector. Researchers want to investigate the role of corporate governance in mediating in the public sector in government-owned hospitals. The hospital is considered important because it is the spearhead of services in the era of the COVID-19 pandemic. An anomaly occurred during a pandemic because the hospital's burden increased in handling COVID-19 patients at COVID-19 referral hospitals, and the soaring number of patients being treated at the hospital has disrupted cash flow. The initial step of this research was to collect data related to the research variable, namely the financial reports of hospitals in Indonesia with A accreditation status. Testing was then carried out using partial least squares (PLS) to see the role of GCG in mediating.

Keywords: Good Corporate Governance, Capital Structure, Covid-19

Introduction:
The emergence of the COVID-19 virus has had an impact on reducing the health levels of millions of people around the world. The burden on hospitals has increased in treating COVID-19 patients at COVID-19 referral hospitals, and the soaring number of patients being treated at the hospital has disrupted cash flow. The reason is that the down payment for hospital work (10–50%) is unable to fund operational costs. This problem is increasingly urgent because there is a dispute over claims among health insurers regarding claims for services in health facilities, and at that time there was no certainty when the COVID-19 pandemic would end.

The COVID-19 pandemic has had an impact on non-CoVID-19 referral hospitals. The COVID-19 virus outbreak caused a reduce in non-CoVID-19 outpatient and inpatient visits. This resulted in a reduce in the number of inpatient rooms in hospitals. The reduce revenue had an impact on the hospital's cash flow. The
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disrupted cash flow caused the hospital's operating expenses to increase. The low level of service due to the low number of patients in non-COVID-19 hospitals has an impact on the continuity of hospital activities. The threat of hospital bankruptcy due to uncertain conditions will affect the entity's performance, so good corporate governance is needed.

Every entity that runs a business has wanted that business to be successful in long-term. If a company has high financial performance, banks or investors will be interested in investing in it. The reason why investors believe that managers are able to manage the company successfully is shown by the enhance in company performance. Good corporate governance is one way to improve company performance because governance can assist businesses in their analysis and improve their economy and competitiveness through full disclosure of all financial transactions (Nurdiono et al. 2019).

Several components are believed to affect company performance, including profitability, capital structure, and good corporate governance as moderating factors. Previous researchers who did the same thing gave validity to this characteristic. Based on Maruli Tua (2021), independent commissioners have no effect on company value. This contrasts with a study by Segundo et al. (2020), which states that independent commissioners have a useful impact on companies. According to research (Purnama and Trisnaningsih 2022), a proxy for corporate governance, namely management ownership, cannot moderate the correlation among financial performance and firm value. Studies on Faton 2021 also come to the same conclusion: good corporate governance cannot weaken the relation between profitability and company performance. In contrast to (Alim Mulia, Wahyu, 2021) research that founds that good corporate governance assist the company's financial performance, such as moderating factors, good corporate governance, according studies by Hakelius and Hansson (2016) eliminates the correlation between corporate value and corporate social responsibility. With corporate governance have a role as a mediating variable, this study aims to explore whether profitability and capital structure have a relation with firm performance.

From the description of the problem above, several research hypotheses are formed, including:

1. **Capital Structure and Company Performance (Barros et al. 2020)**

   Research (Barros et al. 2020) explains that optimal capital structure is the best combination of internal and external funds for improving a company's financial performance and reducing its cost of capital. However, this is not in accordance with research (Mathur et al., 2021), which explains that increasing debt ratios have a negative impact on company accounting performance. So the hypothesis is arranged as follows:

   H1: Effect of capital structure on company performance

2. **Good corporate governance and company performance**

   The results of the study (Hisanudin and Tirta, 2015) explain that good corporate governance has a positive effect on financial performance. This shows that the implementation of good corporate governance can improve company performance, reduce the risk of board behavior in making decisions that only useful certain parties, and improve investor confidence so that they dare to invest. The increase in capital has an impact on company performance. So the hypothesis is arranged as follows:

   H2: The effect of good corporate governance on company performance

3. **Capital Structure and Company Performance Mediated by Good Corporate Governance**

   The results of the study (Mahrani and Soewarno 2018) explain that financial performance and corporate value cannot be moderated by management ownership, which is used as a proxy for good corporate governance. This is inconsistent with study (Barros et al. 2020), which explains that the number of independent members on the board of directors and the participation of the supervisory board have a well effect on market performance. So the hypothesis is arranged as follows:
H3: Good corporate governance mediates the relationship between capital structure and company performance.

**Literature Review**

The literature review in this study includes:

1. **Good corporate governance**
   Every stakeholder wish to reach out a predetermined goal, namely good governance in an entity, because it will have an impact on evaluating the entity's performance. There is a segregation between business ownership and control in terms of a system that is implemented by directing and controlling, which is called corporate governance (Cadbury 2000). Certain governance mechanisms, such as boards of directors, play important role in disciplining and overseeing management in making in accordance decisions at any point in time and for each organization (Cuervo 2002). Separation of ownership and roles of both internal and external stakeholders, accompanied by control to ensure that each activity conforms to the standards of an entity or company, will affect the company's value to the public.

2. **Capital Structure**
   The capital structure is a mixture of various types of funds that contain retained earnings of the company, external equity, and shareholder equity (Wasim, Chaudhary, and Zahid 2011). Research (Khan, Yang, and Waheed 2019) reinforces the explanation that optimal capital structure is the best combination of internal funds and external funds that, as a whole, improve the financial performance of a company and reduce its cost of capital. The entire company's funds, if managed with good management, will improve performance optimally.

3. **Financial Performance**
   Several measures used to determine company performance are return on assets (ROA), return on equity (ROE), Tobin's Q, and sales growth (Siddiqui 2015). This is reinforced by research (Detthamrong, Chancharat, and Vithessonthi 2017), which explains that sales growth is an important indicator of company performance. Increased sales must also be accompanied by good management in accordance with the components in the assessment of good corporate governance.

**Method**

The research procedure begins with the formulation of the problem and the determination of the research objectives, and then the sample is determined from a specified population. This research determines the sample. A regional public hospital because it has a plenary level of service. The financial report data obtained will be tabulated using the Excel program. PLS is used in processing data, and the results will be analyzed. The results of the analysis are used for the discussion of this study. Conclusions and suggestions contain a summary of the results of the study.

The operational variable in this study uses the independent variable company performance. While capital structure is the dependent variable and GCG is the mediating variable. Multiple regression is used in statistical testing to test the hypothesis. Model the equation as follows:

\[ Y = a_1 + 1X_1 + 2X_2 + \ldots + \varepsilon \]  
\[ M = a_1 + 1X_1 + 2X_2 + \ldots + \varepsilon \]  
\[ Y = a_1 + 1X_1 + 2X_2 + 3M_3 + \ldots + \varepsilon \]

Information:
Y: Company performance
X1: capital structure
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M: corporate governance  
Regression Coefficient  
Ɛ: Error

Capital Structure  
Good Corporate Governance  
Company performance

Figure 1: research design

Results and Discussion

Following are the results of this study:

Table 1. Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBV</td>
<td>1141898920086.250</td>
<td>971852595808.4874</td>
<td>20</td>
</tr>
<tr>
<td>GCG</td>
<td>4.00</td>
<td>1.124</td>
<td></td>
</tr>
<tr>
<td>DER</td>
<td>.045558</td>
<td>.0584573</td>
<td></td>
</tr>
</tbody>
</table>

Source: Processed data

Based on Table 1, Descriptive statistics explains the general statistical size values of the three variables. The number of samples for the three variables is 20, which uses a purposive sampling method, namely the number of type A hospitals that issue financial reports and are free of access. The largest mean and standard deviation are in the PBV variable, while the smallest is in the DER variable.

Table 2. Coefficient Determination

<table>
<thead>
<tr>
<th>R-squared coefficients</th>
<th>DER</th>
<th>GCG</th>
<th>PBV</th>
</tr>
</thead>
<tbody>
<tr>
<td>DER</td>
<td>0.016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GCG</td>
<td></td>
<td>0.336</td>
<td></td>
</tr>
<tr>
<td>PBV</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Processed data
Based on Table 2, it shows that the GCG R-Square is 0.016, or 1.6%, which indicates that the DER variable is only able to effect the GCG variable by 1.6%, while the R-Square for PBV is 0.336, or 33.6%, indicating that the GCG variable is able to effect PBV by 33.6%.

### Table 3. Model Fit Test

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
<th>Requirement</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>AVIF</td>
<td>1</td>
<td>&lt;=5</td>
<td>Accepted</td>
</tr>
<tr>
<td>AFVIF</td>
<td>1,234</td>
<td>&lt;=5</td>
<td>Accepted</td>
</tr>
<tr>
<td>RSCR</td>
<td>1</td>
<td>&gt;=0.9</td>
<td>Ideal</td>
</tr>
</tbody>
</table>

Source: Processed data

Table 3. Shows that the model used in the study is quite good. The following is the research model after being processed with the PLS-SEM method.

![Figure 2. PLS SEM Research Model](image)

There are several other indicators generated by calculations using the warppls method. These indicators are presented in the following tables.

### Table 4. Path Coefficients

<table>
<thead>
<tr>
<th></th>
<th>DER</th>
<th>GCG</th>
<th>PBV</th>
</tr>
</thead>
<tbody>
<tr>
<td>GCG</td>
<td>0.128</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PBV</td>
<td>-0.282</td>
<td>0.506</td>
<td></td>
</tr>
</tbody>
</table>

Source: Processed data
Table 4 shows the relevance between variables. The strongest relationship is in the GCG and PBV variables, which show a positive relationship of 0.506; the second is in the correlation between DER and PBV, which is -0.282; and the lowest is in the correlation between GCG and DER, which is 0.128. The closer the correlation indicated by the magnitude of the path coefficient value, which is close to the number 1. While the closer to 0 is indicating a low correlation. Furthermore, to answer the hypothesis of this study, see the following table:

**Table 5. P Value For Direct Effect**

<table>
<thead>
<tr>
<th></th>
<th>DER</th>
<th>GCG</th>
<th>PBV</th>
</tr>
</thead>
<tbody>
<tr>
<td>GCG</td>
<td></td>
<td>0.272</td>
<td></td>
</tr>
<tr>
<td>PBV</td>
<td></td>
<td>0.076</td>
<td>0.003</td>
</tr>
</tbody>
</table>

Source: Processed data

**Table 6. P Value For Indirect effect**

<table>
<thead>
<tr>
<th></th>
<th>DER</th>
<th>GCG</th>
<th>PBV</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBV</td>
<td></td>
<td>0.338</td>
<td></td>
</tr>
</tbody>
</table>

Source: Processed data

**DISCUSSION**

H1: Effect of capital structure on company performance

P value for the effect of capital structure on company performance, as explained by the DER and PBV variables, is 0.076. While the condition for acceptance of significance is if the value of the P value is 0.05, it can be concluded that H1 is rejected and that the effect of DER on PBV is not significant. DER has no effect on company performance; there are indications that it is caused by the type of organization that is the object of research, namely the government sector. The sensitivity of organizational performance in the government sector is not significantly affected by capital structure. The results of this study are in accordance with the research of Prayitno (2012), which states that the long-term capital of a government entity has a low intensity of change that has no impact on operating expenses.

H2: The effect of good corporate governance on company performance

P value for the effect of good corporate governance on company performance as explained by the variables GSC and PBV is 0.003, which requires significance with a P value ≤ 0.05, so the conclusion from the results
of the effect test is that H2 is accepted. This means that there is a significant effect between the GCD variable and PBV.

H3: Good corporate governance mediates the relationship between capital structure and company performance.

The indirect P value for good corporate governance that mediates the relation between capital structure and company performance explained by the variables DER, GCG, and PBV is 0.338, which is a significance requirement for a P value ≤ 0.05. This value means that the GCG variable has not been able to mediate the relationship between DER and PBV. In this finding, there are indications that it is caused by the unaffected relationship between DER and GCG, with a P value of 0.272, which is not significant.

Conclusion
The results of the analysis and discussion of this study can be concluded to show that there is no significant effect among capital structure and company performance. DER has no effect on company performance; there are indications that it is caused by the type of organization that is the object of research, namely the government sector. There is a significant effect of good corporate governance on company performance. These results illustrate that the implementation of good corporate governance will affect the company's financial performance. Good corporate governance is not able to mediate the relevance among capital structure and company performance due to the low intensity of changes in capital entities in government.

Suggestions for the next researcher are to replace the research object with a public sector hospital so that data is more available and flexible to discover data over a long range of years, and add methods by conducting interviews and giving questionnaires to hospital stakeholders.

Acknowledgement
We thank all parties involved in this research. Starting from the team, superiors and campus who always support us in developing research

Conflict of Interest
In this research we have no conflict of interest. This research was conducted to test the theory with the social phenomenon of the impact of Covid-19. Moreover, the researcher does not have an acquaintance relationship with all the respondents or parties who are the samples from this research.

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