

ABSTRACT

Mediaton effect of financial leverage in the relationship between corporate governance and corporate profitability is still rarely explored. Eventhough this research may explain the mixed results about the effect of corporate governance on corporate profitability and provide a better understanding of how changes in corporate governance can affect company profitability.

This study examines the effect of corporate governance on corporate profitability with financial leverage as a mediating variable. The study was conducted on a sample of 344 companies in Southeast Asia in 2015-2018. Data analysis was based on the Bloomberg Laboratory at the Fakultas Ekonomika dan Bisnis, Universitas Diponegoro, Semarang. Data is processed using SPSS software.

The results shows that board size, board independence, and CEO duality have a positive and significant influence on financial leverage. While the audit reputation provides a negative and significant effect on financial leverage, while female directorship have no significant effect on financial leverage. In relation to company profitability, board size and board independence has a positive and significant effect on profitability. On the other hand, CEO duality and audit reputation have a negative and significant influence on company profitability. While female directorship has no significant effect on company profitability. Financial leverage has a positive and significant effect on company profitability. As a mediator, financial leverage is able to mediate board size, CEO duality, and audit reputation on the company's profitability.

Keywords: corporate governance, financial leverage, mediation effect, profitability