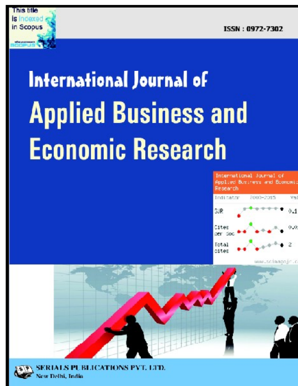

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The Effect of Managerial and Institutional Ownership, Firm Size, Asset Structure to Debt Policy

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Abstract: Debt policy is a decision that can be taken by the company to obtain funds from third parties. This research aim to examine (1) the effect of managerial ownership on debt policy in property, real estate and building constructions companies listed on Indonesia Stock Exchange in the period 2013-2015, (2) the effect of institutional ownership on debt policy in property, real estate and building constructions companies listed on Indonesia Stock Exchange in the period 2013-2015, (3) the effect of firm size on debt policy in property, real estate and building constructions companies listed on Indonesia Stock Exchange in the period 2013-2015 and (4) the effect assets structure on debt policy in property, real estate and building constructions companies listed on Indonesia Stock Exchange in the period 2013-2015. The subject of this research is property, real estate and building constructions companies listed on Indonesia Stock Exchange in the period 2013-2015 were selected by purposive sampling. The analysis method in this research used multiple regression analysis. The results of regression analysis was managerial ownership does not influence on debt policy, institutional ownership influence on debt policy, firm size influence on debt policy, assets structure does not influence on debt policy.

Keywords: Financial Accounting, Institutional and Managerial Ownership, Firm Size, Debt Policy.

1. INTRODUCTION

The ownership structure informs the company's capital performance that required to finance their operational activities (Azami, 2016). The company's capital strength is used to achieve maximum profit, therefore management's strategic decision to use debt policy will be determined by the feasibility of their capital structure. Institutional ownership in the company is also a determining factor that will influenced debt policy. Zhou & Xie (2016); Nashier & Gupta (2016) say that institution ownership usually comes from peer group investor, banks, insurance and legal entities to be invested in other companies' shares. The institutional interests of an institution can also play a role in minimizing the conflict of density, the conflict caused by conflict between managers and institutions.

Firm size is also one of the factors that affect management to make decision to use outsider or insider loan. Firm size indicator usually use log natural of total asset. Huynh *et al.* (2015); Azhagaiah & Silambarasan (2014) say that total assets of the company are the accumulation of all assets owned by the company that obtained by purchase with internal funds or debt. Larger companies usually use more debt than small companies, because large companies get more easier to access the capital market. The Company will seek to exploit its assets to acquire additional assets. Given the company's fixed assets, the company may use this as a guarantee to a third party in lending. This study uses property, real estate and building construction companies listed on the Indonesia Stock Exchange because of the activities generated from the property and real estate industries whether houses, apartments, shop houses, office buildings, malls, or trading centres where there will be investors who invest their ownership shares and also the assets owned by the company.

2. LITERATURE REVIEW

(a) Agency Theory

Agency theory describes the relationship between shareholders as principal and management as agents. Management is a party contracted by shareholders to work for the benefit of shareholders (Brigham and Huston 2014: 26). This theory discusses the existence of ownership among shareholders who invest their shares in the company. Agency theory also inform that management and investor is two parties that having difference interest. According to Brigham and Huston (2014: 26) in a company must have a goal, especially the goal owned by financial management is to increase the prosperity of shareholders so that shareholders can also receive benefits and profit from their investment. When there is a difference of interest between the shareholder and the management then it causes the problems between their interests. Management should be responsible and act to prosper its owner, therefore management in making decisions must weigh and pay attention to the interests of the owner, but most management only prioritize its importance in decision making. Differences of interest that it has that will lead to an agency conflict.

(b) Debt policy

Debt policy is a policy chosen by management to obtain sources of funds from other parties to finance the company's operational activities. It is related to the capital structure selected by the company. Capital structure is a consideration between foreign capital or internal capital. Working capital owned by the company can come from internal fund sources as well as external funds. Internal sources of funds are sources of funds that can be obtained from the company's operational activities, but for sources of funds from external can be obtained from activities outside of own capital or debt (Brigham and Houston, 2014). Debt policy is an external sourced policy. Debt policy will impact conflict and agency costs. Agency costs can be minimized by using debt policy, an increase in debt will reduce the conflict between management and shareholders. Debtholders who have invested in the company will naturally oversee the use of the funds by the management through a very strict debt agreement (Rifaatul, 2015).

(c) Managerial ownership

Managerial ownership is the percentage of votes associated with shares and options owned by managers and commissioners of a company. Karimi, *et al* (2017); Hong, *et al* (2016); Azami (2016); Duc & Van (2014)

said that managerial ownership can provide an opportunity for managers to be directly involved in share ownership so that with this involvement the manager's position is equal to the shareholders. Managers not only required as external parties paid from corporate profits but treated as a shareholder. Thus it can be assumed that the involvement of managers on stock holdings will effective to improve the performance of managers.

(d) Institutional ownership

Institutional ownership is a company that will invest fund in the form of shares of other companies. Examples of institutional ownership such as institutions such as insurance companies, banks, investment companies and other institutional ownership. Zhou & Xie (2016); Nashier & Gupta (2016); Min & Verhoeven (2013) said that the degree of an institutional ownership has the advantage of having a professional level in analyzing information. They know the accuracy of the information obtained and also has a definite purpose to carry out monitoring activities in the company (Brigham and Houston, 2014).

(e) Firm Size

A firm classified large size is described from its high or low operating activities. Usually the larger of firm size will be reflected the complexity of firm activity too. Therefore the size of the firm can be associated with the amount of total asset (Brigham and Houston, 2014). The firm size has affected the capital structure, especially related to the ability to obtain loans. Mohapatra, *et al* (2017); Huynh, *et al.* (2015) said that the firm size is a proxy for information asymmetry between companies and markets. Firm size has a role that has different impacts when decision making related to fund.

(f) Asset Structure

The structure of an asset can be determined by comparing total fixed assets to total assets owned by a company. Giambona, *et al* (2014) said that total fixed assets can be determined by adding up the company's fixed asset accounts, such as buildings, land, machinery, vehicles, equipment and other tangible fixed assets and subsequently reduced accumulated depreciation of property and equipment. The asset structure is the ratio between fixed assets and total assets (Brigham and Houston, 2014).

(g) Relationship between Managerial Ownership of Debt Policy

Conflicts of interest between managers and shareholders are very likely to occur in a company. Karimi *et al* (2017); Hong, *et al* (2016); Azami (2016) said that the manager will have more complete information than the investors. Managerial party within the company is a party who is actively in making a decision. Increased managerial ownership will make management cautious in managing the company's debt policy, because the manager's wealth is indirectly related to the company's, so the use of debt becomes smaller.

H_1: Managerial ownership affects debt policy

(h) Relationship between Institutional Ownership to Debt Policy

Nashier & Gupta (2016); Min & Verhoeven (2013) argue that increasing the institutional ownership will be the less the debt used to fund the company. This is due to the emergence of a supervision or monitoring by

other institutions such as banks and insurance against corporate performance, if the company uses a lot of debt to fund the company's operations then the risk of default will be settled by selling institutional shares.

H_2: Institutional ownership affects debt policy

(i) Relationship between Firm Size to Debt Policy

Larger company, may be more transparent to show their financial performance to the outside parties, therefore the company will be easily and trusted by the creditors when it comes to borrowing the debt. Marhamah (2016); Huynh, *et al* (2015); Azhagaiah & Silambarasan (2014) say that firm size is also a factor needed to determine the level of corporate debt. Large companies tend to be easy to get loans on third parties, because the ability to access on the other hand, is easier as well and the assurance that the company has assets will provide great value compared to small companies.

H_3: Company size influences debt policy

(j) Relationship between Asset Structure to Debt Policy

Giambona, *et al* (2014) and Campello, *et al.* (2013) say that assets owned by a company will have value added to the company if it will borrow the debt to other parties. One of them is the asset can convince the other party to be guaranteed to the company get loan from other party. Companies that have more assets then credit guarantees will also use more debt because creditors will always provide loans if the company has a guarantee (Brigham and Houston, 2013).

H_4: Asset Structure Affects Debt Policy

3. RESEARCH METHOD

Quantitative method was used and datas were collected by documentation. Population is property, real estate and building constructions companies that listed in Indonesian Stock Exchange in 2013-2015. The independent variables are managerial ownership (X_1), institutional ownership (X_2), firm size (X_3) and Asset Structure (X_4). Dependent variable (Y) is the debt to equity ratio. Definition of variables are: (1). Debt

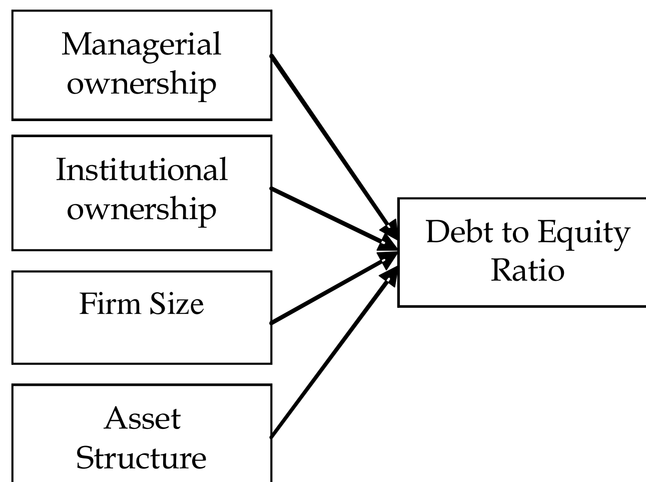

Figure 1: Research Framework

policy is the amount of debt that used to fund the company's operational activities which can be seen from the total debt divided by the total capital. This indicator usually use debt to equity ratio. (2) Ownership managerial is part of shares that owned by managerial. Rifatul (2015) Managerial ownership is measured by the proportion of the number of shares owned by managerial and commissioner divided by the number of outstanding shares. (3) Institutional ownership, percentage of shares owned by institutional shareholders at the end of the year such as financial institutions, legal entities, banks, insurers and representatives. Institutional ownership is measured by comparing the number of shares owned by the institution with the number of outstanding shares. (4) Firm size, the ability of companies in taking business opportunities that exist in the business world it will be able to affect the company's performance both small and large companies. Firm size is the large or small companies that can be seen from the total assets of the company and measured by the total natural log of assets. Asset structure is the amount of fixed assets owned by the company. Asset structure measurement using fixed assets divided by total assets.

4. RESULT AND DISCUSSION

Prior to test hypothesis, a classical assumption test is consisted of normality, multicollinearity, autocorrelation, and heteroscedasticity whether the regression model was BLUE (Best Linear Unbiased Estimated). Based on classical assumption test, it is found that the residual data is normally distributed, does not contain multicolinearity, free from autocorrelation and heteroscedasticity.

Table 1
Descriptive analysis

Variable	*N*	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Debt to Equity	156	0,01655	1,56640	0,642873	0,35750182
Managerial Ownership	156	0,00000%	50,58273%	1,889785%	7,49790827%
Institutional Ownership	156	0,00000%	97,49523%	58,53444%	26,75411355%
Firm Size	156	21,80518	31,35253	28,61792	1,51328401
Asset Structure	156	0,00017	0,73928	0,131824	0,15499017

Source: SPSS output

Table 1 states that debt to equity ratios have the lowest score from 2013-2015 occurred in 2013 with a value of 0.016555 while for the highest value occurred in 2014 amounted to 1.56640. The mean result is 0.642873 with a standard deviation of 0.35750182. Therefore the debt to equity variable has homogeneous data distribution or does not vary because the mean is greater than the standard deviation.

Managerial ownership has the lowest value occurred in the year 2013-2015 at 0.0000% while for the highest value occurred in 2015 amounted to 50.58273%. The total mean for the managerial ownership variable is 1.889785% with standard deviation 7,49790827%. The finding of reserach shown that managerial ownership has a heterogeneous distribution of data because the mean value is below the standard deviation.

Institutional ownership has the lowest value from the year 2013-2015 occurred in the year 2015 of 0.00000% while for the highest value occurred in the year 2013-2015 amounted to 97.49523%. The mean value for the institutional ownership variable is 58.53444% with the standard deviation of 26.75411355%.

Based on these results, institutional ownership variable has homogeneous data because mean value is greater than the standard deviation number.

The size of the company has the lowest value from 2013-2015 occurred in 2013 which is owned by PT. Suryamas Dutamakmur (SMDM) of 21.80517759 while for the highest value occurred in 2013-2015 owned by PT.Lippo Karawaci, Tbk (LPKR) of 31.35253. The size of the company in the above results that has mean value was 28.61792 while for the standard deviation of 1.51328401. Based on these results the distribution of data was homogeneous which can be known through a mean value greater than the standard deviation.

The asset structure has the lowest value from the year 2013-2015 occurred in the year 2013 amounted to 0.00017 while for the highest value occurred in 2014 amounted to 0.73928 Variable asset structure shows the mean result of 0.131824 with standard deviation 0.15499017. So it can be seen that the distribution of data in this variable was heterogeneous because the mean value is smaller than the standard deviation.

Table 2
t Test

Independent Variable	*t test*	*Sig.*
Managerial Ownership (MOWN)	-1,638	0,103
Institutional Ownership (INST)	-3,650	0,000
Corporate Size (SIZE)	3,805	0,000
Asset Structure (STA)	-0,265	0,791

Source: SPSS output

HYPOTHESIS TEST

The Effect of Managerial Ownership on Debt Policy

Table 2 show that managerial ownership has no effect on the debt policy which shows the results of significance value of 0.103 > significance value 0.05. The results of this study are in line with the findings of Karimi, *et al.* (2017); Hong, *et al.* (2016); Azami (2016), which stated that managerial ownership has no effect on debt policy. There are differences research findings that is researched by Rifaatul (2015); Duc & Van (2014); Cheng, *et al.* (2012) which states that managerial ownership has an influence on debt policy with a negative direction. The size of managerial ownership in the company has no effect on debt policy making. Since the managers of public companies in Indonesia are not the determinants of the financing of the debt because the propotion number of shares held by managers was very small (Duc & Thi, 2013). When managerial ownership is low, the incentives for opportunistic management will increase.

The Effect of Institutional Ownership on Debt Policy

The results of the t test table said that institutional ownership has an effect on the debt policy. This can be seen in Table 2 which shows the results of significance value of 0.000 < 0.05. The results are in line with Nashier & Gupta (2016); Min & Verhoeven (2013) who stated that institutional ownership has an effect on debt policy and also the research of Zhou & Xie (2016) and Huson, *et al* (2006) which stated that institutional

ownership positively and significantly influence to debt policy. However, this is not in line with previous research conducted by Rifaatul (2015) which states that institutional ownership has no significant effect on debt policy. Institutional ownerships may have an effect because the average value in Table 2. is 58.53444% owned by the institution's ownership. Such a large percentage will make the institution larger in decision making. This is due to the emergence of supervision or monitoring by other institutions such as banks, cooperatives, insurance and other institutions (Zhou & Xie, 2016). With the existence of institutional ownership will encourage more optimal supervision of debt policy.

The Influence of Firm Size on Debt Policy

The results of t test in Table 2 shows that the firm size has a result affect the debt policy. Tthe results of significance value of 0.000 it means the significance value less than 0.05 so it can be concluded that the variables of firm size influence. The results of this study are in line with the research studied by Mohapatra, *et al.* (2017); Marhamah (2016); Huynh, *et al.* (2015) which states the size of the company significantly influence the debt policy and also research Dewi, *et al.* (2014); Azhagaiah & Silambarasan (2014) which explains that firm size has a significant positive effect on debt policy. While there are also studies that are not in line with the results of research that is the research conducted by Moballeghi, *et al.* (2013) states the size of the company does not affect the debt policy. The results of this study indicate that firm size significantly influence on the debt policy. The size of the firm is also one of the factors in decision making because firms that have large sizes or who have large total assets will tend to be easier in obtaining loans from third parties.

Influence of Asset Structure on Debt Policy

An asset is a wealth that can describe a company's own assets by a company that can be measured by dividing between fixed assets and total assets. The company's asset structure has an influence on debt policy if the company has large fixed assets because tangible assets or fixed assets owned by the company can be used as collateral. The results of the Table 2 shows that the asset structure has no effect on the debt policy because the results of significance value of 0.791. It means the significance value of more than 0.05 so it can be concluded that the variable of the asset structure does not affect the debt policy. The results of this study are in line with the research investigated by Giambona, *et al.* (2014); Campello, *et al.* (2013) and Ahadiyah (2013). Marhamah (2016) stating that there is no statistically significant relationship between tangibility assets and corporate debt, according to Ahadiyah (2013) assets structure has no significant effect on debt policy. However, the results of this study difference from previous research by Alcock, *et al.* (2013) which states that the asset structure has a significant positive effect on debt policy. According to Marhamah (2016) Fixed assets are assets that belong to the company which is used continuously for activities to produce goods and services in a company. So the asset is still used only for the operations of the company, not for as collateral when having debt. Therefore, the possibility of tangibility asset is not always able to be used as collateral in debt policy because some creditors are less interested in using fixed assets in debt repayment. Therefore, the asset structure has no effect on debt policy (Giambona, *et al.* 2014).

5. CONCLUSION, LIMITATIONS AND SUGGESTIONS

The conclusions of this study are (1) The results of managerial ownership have no effect on debt policy on property, real estate and building constructions companies in Indonesia Stock Exchange during 2013-

2015. So it shows that the first hypothesis in this study was rejected. (2) The result of institutional ownership affects the debt policy of property, real estate and building constructions companies in Indonesia Stock Exchange during 2013-2015 period. Then it shows that the second hypothesis in this study is accepted. (3) The result of firm size has an effect on debt policy at property company, real estate and building constructions at Indonesia Stock Exchange during period 2013-2015. Then it shows that the third hypothesis in this study is accepted. (4) The result of the asset structure does not affect the debt policy of property companies, real estate and building constructions in Indonesia Stock Exchange during the period 2013-2015. Then it shows that the fourth hypothesis in this study was rejected. Limitations in the time span of the study cause the results of the study can not be used to predict its long-term. Suggestions in subsequent research, among others: (1) The existence of limitations by using a fairly short period of time for three years, then researchers are expected to consider again to use a longer period so it can be used to analyze the long term. (2) Further research is expected to use or add independent variable beside managerial ownership variable and asset structure replaced by variable which if have an effect on to debt policy that is like free cash flow, liquidity and profitability for better result of next research.

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