Financial and Non-Financial Policies: An Examining of Agency Theory

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INTRODUCTION

In running the company operations, oftenly the actions of the managers, instead of maximizing the welfare of the owners (stockholders) as the main purpose of the company exists or is established, but rather tend to increase their own welfare. The decisions they make tend to benefit the insiders, for example expanding to improve the status and salary, as well as imposing costs on companies. These conditions will result in the emergence of a wide degree of difference of interests between stockholders and the insider. The conflict caused by the separation between ownership and control functions in financial theory called agency conflict.

Agency theory suggests a number of mechanisms that can be used to oversee the agency conflict, including an increase in insider ownership and debt financing. Jensen and Meckling (1976) says that the use of instruments of insider ownership is able to align the interests of managers and other stockholders, this policy led to increased managerial control of the parties. Meanwhile, according to Grossman and Hart (1982), agency problems can be reduced by using debt policy instruments, the use of this instrument would be binding on the company in a "contract" with debtholders, the company burdened with the obligation to make interest payments and principal repayments on a periodic basis.

The increased percentage of insider would increase the risk of non-diversifiable debt (Friend, *et al.* 1988; Bathala, *et al.* 1994). They say that a high percentage of insider would be pushed to choose risky projects in the hope to gain higher profits. To finance the project, insider choose financing through debt, in the hope they can divert the underwriting risk to the creditor if the project fails. On the other hand, if the investment project is successful, stockholders will receive the results of the residue because creditors will only be paid for certain, namely in the form of flowers. However, the use of debt is too high which can increase the risk of bankruptcy (Banckruptcy risk) and financial difficulties (financial distress).

In order to overcome the disadvantages of the emergence of the use of debt and the percentage of too large insider, it takes a control of mechanism (Fama and Jensen, 1983; Agrawal and Mandelker, 1990).

Furthermore, according to them, one of the oversight mechanisms that can be used is to enable the monitoring through the involvement of institutional investors. Through these institutional investors, it will encourage the emergence of a more optimal monitoring of the performance of managers.

Ownership Structure of Companies in Indonesia

When it is compared with the number of capital markets in developed countries, which are generally empirical studies of the agency theory has been done, the ownership structure of companies in Indonesia is very unique. In a number of capital markets of developed countries, such as in the United States and some European countries, the separation of ownership and control are usual thing that is carried out by a body which has the power strong enough independence. In general, companies listed in the Indonesia Stock Exchange, has obstacles or surveillance of individuals, especially companies owned by Indonesian citizens descent, it certainly will affect the decisions taken by the management that no longer reflect purely the interests of shareholders more. Theoretically it means that the interests of management and shareholders would be relatively consistent. Therefore, it is not surprising that many members of the family who has a large enough percentage of shareholding often have key positions in the company.

Supervision of the company's ownership in most companies that have been traded in the capital market, not undergone many changes since those shares are offered first time (initial public offerings), generally family members have dominant shareholding. Furthermore, there are also a number of shares held by institutions as part of monitoring the implementation course of the comp any, generally these institutions are affiliated with the company, so that left only few stocks that actually owned by the public. Uniqueness in implementation monitoring and ownership structure of the company will have an influence on the policies of the company. The high enough levels of insider ownership will facilitate the supervision and also align the interests of managers and shareholders (Jensen and Meckling, 1976), therefore it will be able to reduce the agency conflict of equity, but on the other side the conflict will worsen the debt agency. Nevertheless it is not clear how the company's ownership structure and management relating to "corporate leverage" in an agency theory perspective.

Based on a number of studies that have been done before, notably by Bathala, *et. al.* (1994) and Sihombing (2000), this study aims to explain how the effect of institutionally ownership of the debt policy and insider within an agency theory perspective.

LITERATURE REVIEW

Agency Theory

Agency relationship arises when one or more individuals or owners pay individual or agency to act on its name, then they delegate their rights and authority to make such decisions to the agencies they have appointed (Brigham, 1996). Meanwhile, according to Harianto and Sudomo (1998), quoted by Sihombing (2000), agency theory explains the relationship between the employer and the recipient of the mandate to carry out the work. The employer called the principal will give the right and authority to others who called the agent to exercise this right. Both sides are bound by a contract stipulating the rights and obligations of each. Meanwhile, Fama (1980) in his classic theory says that the separation of ownership and control over a security perspective into a set of agreements between the agent and the principal is an efficient form of organization. The statement emphasizes the importance of this agency relationship.

The agency problem between shareholders and managers or the controlling party and the minority stockholders, potentially arise if managers' control of those shares is less than 100%. This occurs because not all the benefits will be enjoyed by the manager, so they do not concentrate on maximizing the interests of the owner of the company. Jensen and Meckling (1976) say that the condition is as a consequence of the separation of management and ownership functions (the separation of the decision making and risk beating functions of the firm). The decision makers relatively risk for decision-making mistakes, so the risk is borne by the stockholders entirely. As a result, management tends to expenditures consumptive and counter-productive to its own interests, such as an increase in salary and status. One oversight mechanism to do is to activate the monitoring through ownership of shares by institutional (institutional ownership), so that the agency conflict that can occur reduced.

Supervisory Mechanisms to Reduce Conflicts

Problems agency has the potential to emerge as the company grows, these problems also as a consequence of the separation of the functions of decision-making and underwriting risk. In these conditions, managers have a tendency to do various expenditures for unproductive investments in excess. This occurs because of the relatively similar risk borne, conflict arising from disparities is known as equity interests of agency conflict. To minimize such conflict of interest, it would require an oversight mechanism to align between the two interests.

Bathala, *et al.* (1994) in an empirical study said that the distribution of financial claims and institutional ownership is an important supervisory agent and able to make a consistent active role in protecting the interests of its investment in the company. They say that there is a relationship that is substitutability between debt policy and institutional ownership; they argue that an increase in the proportion of institutional ownership can replace the need for debt so as to reduce the debt agency conflict. Therefore, they cite an expected negative causal relationship between debt policy and the proportion of institutional ownership. The findings are consistent with the results of empirical research by McConnell and Servaes (1990), as cited by Welberforce (2000), which states that there is a fact that there is a positive supervisory role carried out by institutional investors. The findings are reinforced by a study of Chen and Steiner (1999) which says that the presence of institutional investors is expected to be able to reduce the concentration of stock ownership by insider. Wilberforce (2000) conducted a study to test whether a financial policy may be substituted with non-financial policy (insider ownership) in dealing with the agency. By using a simultaneous equations analysis of the cross-sectional data, research results show that in addressing the agency conflict, the use of debt will trigger a new agency conflict between creditors and stockholders.

Research Hypothesis Formulation

The relationship between debt policy and institutional ownership can be described as a relationship that is monitoring-substitution effect. The fact is supported by the results of empirical study of Bathala, *et al.* (1994), which argues that the presence of institutional ownership can replace the debt to reduce the agency conflict. Furthermore, they say that there is a negative relationship between institutional ownership and debt policy. A similar opinion is expressed by Moh'd, *et al.* (1998) who also finds a significant negative relationship between institutional ownership with debt ratios. Based on these results, the hypothesis can be formulated as follows:

H1: institutional ownership negative effect on the debt ratio.

H2: institutional ownership negative effect on insider ownership.

The control variables used in this study are based on some previous studies (Bathal, *et. al.* 1994; Sihombing 2000). The variable functions to see if the number of control variables entered into the model, the main independent variable, namely the institutional ownership is significantly stronger, so as to reduce the error term. In this study, which is used as a control variable as follows: for the first equation (dr-equation); insider ownership, growth, earnings volatility, size and profit. Meanwhile for the second equation (insider - equation); growth, volatility of the stock, size and debt ratio.

RESEARCH METHOD

This study uses secondary data, where the study population consisted of manufacturing companies listed on the Indonesian Stock Exchange (IDX) during the years 2010 to 2014. In this study, data were collected using purposive sampling method, which is a member-based sample collection methods a certain criterion.

In this study, several variables are used in order to confirm the two forms of simultaneous equations (simultaneous-equation) which would then be used to test the hypothesis that has been described in previous chapters. From the development of hypotheses and research model schematic framework, it can be formulated into two simultaneous equations, the ratio of debt (debt ratio equation) and insiders (insider equation) as the dependent variable. In this study, the debt ratio will serve as regressors in the equation insiders, but on the other hand variable insiders will actually function as regressors in the equation debt ratio. So in other words, the two variables (dr and insider) have the nature of jointly determined endogenous variables, while the main independent variable (primary variable interest)
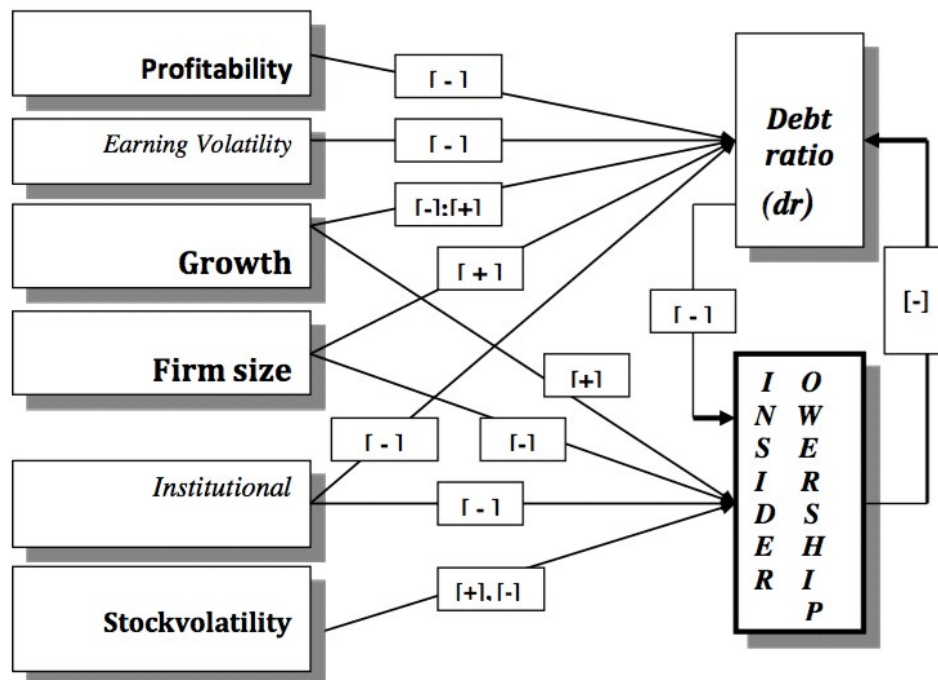

Figure 1: Research Framework

$$dr = a_{01} + a_{11}\text{Insider} + a_{12}\text{Instl} + a_{13}\text{Growth} + a_{14}\text{Earnvolt} + a_{15}\text{Size} + a_{16}\text{Profit} + e_1\text{Insider}$$
$$= a_{02} + a_{21}dr + a_{22}\text{Instl} + a_{23}\text{Growth} + a_{24}\text{Stockvolt} + a_{25}\text{Size} + \varepsilon_1$$

Keterangan:

dr = Debt ratio

Insider = Insiders ownership

Instl = Institutional ownership

Earnvolt = Earning volatility

ε_1 dan ε_2 = Error term 1 don 2

a_{01} dam a_{02} = Konstanta

Growth = Growth

Size = Size

Stockvolt = Stock volatility

Profit = Profitability

a_{11} s.d. a_{16}; a_{021} s.d. a_{25} = Regression coeffecient

To find out more precisely about the relationship between the two equations above, the depiction of the research model will be able to explain the simultaneity of the relationship between these two structural equations. Therefore, the program for the first equation (debt ratio - simultaneous equation), variable growth, size earnvolt, and profit function as a control variable, while for the second equation (insider-simultaneous equation) variable growth, size stockvolt, serve as control variables. So it can be said that the model can give an idea of how insiders effect on the debt ratio and how debt ratio also affects the insiders. Mathematically, the equation is able to accommodate and answer the formulation of research problems. On the other hand, to process the data obtained helped by using Analysis Moment Structure (AMOS) program.

Model Hypothesis Testing

To test the hypothesis of the study, as mentioned previously, the most appropriate method to be used is a method of structural equation modeling or latent variable analysis or analysis LISREL. The proposed model is considered fitted, if they meet several criteria, namely:

(a) Non-significant Chi Square (at least > 0.05, preferably > 0100 or > 0.2000).

(b) Incremental fit (Goodness of Fit Index (GFI), Adjusted GFI (AGFI), Tucker-Lewis Index (TLI), normed Fit Index (NFI) and CFI) indicates a value greater than 0.90.

(c) RMR value (Root Means Square Residual) and RMSEA low (often close to zero).

(d) Has a positive value Degree of Freedom (DF).

(e) The ratio of the chi-square and df (FMIN/DF) are small or very close to 1 (one).

(f)   The model has a stability index is low (< 1), smaller means more fitted models arranged. The significance of the effect of each independent variable and the value.

The coefficient estimate can be seen in each column and the estimated value of C.R (Critical Ratio) which can be seen from the results output AMOS (Regression Weight). In this study, the first hypothesis could be accepted if the institutional variable coefficients have a negative and significant value to variable rate debt, the opposite situation means that the first hypothesis is rejected. While the second hypothesis is also acceptable if institutional ownership variable has a negative and significant coefficient on the variable insider, the opposite situation means the hypothesis is rejected.

RESULTS AND DISCUSSION

From the 104 pieces of companies sample that have met the study criteria, it is obtained a description descriptive statistics that can serve to know the characteristics of the samples used in the study. Descriptive statistical data presented includes: names of variables in the study, the number of valid samples, data interval, maximum and minimum values, and the arithmetic average standards or standards deviation. The following table shows further

Table 1
Descriptive Statistic

Variable	N	Min	Max	Mean	Std. Deviation
Insider	104	0.00380	0.58470	0.1445317	0.1233527
Institutional ownership	104	0.12970	0.93650	0.5499452	0.2032720
Debt ratio	104	0.00020	0.48640	0.1336474	0.1250571
Stock volt	104	0.00260	0.39146	0.1266179	0.0731147
Earning volt	104	0.00668	0.26454	0.0354000	0.0269484
Size	104	4.01510	6.63491	5.3606302[a]	0.5492902
Growth	104	−0.25001	3.05283	0.3640677	0.4942052
Profit	104	−0.04678	0.24571	0.0855000	0.0535480

Source: Processed data

From Table 1 above, the average variable insider ownership of 14.45% of the 104 samples collected from the company to the JSE during the observation period. Figures percentage is much greater than the average of insider ownership in the companies listed on the stock markets of developed countries (developed capital markets) at 8:39% (Chen and Steiner, 1999). Meanwhile, the standard deviation value of this variable is large enough 12:51%; this suggests insider ownership at companies sample is very diverse. Variable institutional ownership has an average of 54.99% with a standard deviation of 20:33%, this value is higher compared to the same variable in the case of markets in developed countries. However, in the case of Indonesia it is clear percentage of institutional ownership is far greater than insider ownership. Variable debt (debt ratio) has an average value of 13:36% with a standard deviation of 12:51%. The value of the debt ratio in this study is smaller than the results of the study of Wilberforce (2000) which is equal to 34.65%. While the average value of stock volatility is 12.66%, this value is close to the results of research Bathala, *et al.* (1994).

Variable earnings volatility has an average value of 3:54% with a standard deviation of 2.69%. Sizeable deviation rate shows higher differences among the sample of firms from the average value. Meanwhile variable sized companies have an average of 5:36 in a logarithmic scale with a standard deviation of 0.549. This small deviation value indicates that the size of the sample companies do not have much of a difference. Profitability variables have an average of 8:55% with a standard deviation of 5:35%. And last variable rate has an average growth of 36.41% with a standard deviation of 49.42%, the standard deviation indicates the magnitude of the company's growth rate in the manufacturing industry is very diverse.

Table 2
Model Test Results

Goodness of Fit	Level of fit	Results	
Absolute fit			
χ^2	Non-significant chi-square (at least $p > 0.05$, it is better if $p > 0.20$).	2.201 (level significant = 0.33)	Models can be accepted (fitted).
GFI	A higher value indicates a more fit [Range between 0-1].	GFI = 0.995.	Good
RMSEA	Value is said to be fit when < = 0:08.	RMSEA = 0.031	Model fit
RMR	The lower the better	RMR = 0.006	Model fit
Incremental Fit			
TLI	Model fit, with TLI recommended value > = 0.9. A higher value means more fit models.	TLI = 0.986	Model fit
AGFI	A higher value means more models fit	AGFI = 0.916	Model fit
RFI		RFI = 0.869	Model fit
Parsimonious			
PGFI	GFI is respesifikasi, use it if there is a comparison.	PGFI = 0.055	
AIC	There needs to be a comparison, positive values lower the better.	AIC = 70.201	

From the measurement results goodness of fit, it can be said that the research model has a value of fitting the model is good, is simply the result can also be seen from the measurement probability non-significant of his (*p*) of 0.333 (> 0.05, the minimum levels to be able to use the model). It can be concluded that the research model can be used.

Here are presented the results of the analysis equation debt ratio and insider ownership with the help of Analysis Moment Structure (AMOS) program for the second joint equation, as follows:

Equation Debt Ratio (Debt Ratio - Structural Equation)

Institutional ownership variable has significant negative relationship to the debt ratio; the direction of this coefficient has been consistent with the predictions of researchers. This suggests that the presence of this variable can replace debt in reducing the agency problem. Variable insider that has a positive coefficient is not significant, this result is different from the prediction research, it indicates that the

Table 3
Analysis of Simultaneous Equation Debt ratio and Insider

Endogen: Debt Ratio (Y_1)

Eksogen Prediction		*Coefficient*	*Critical ratio*
Insider	(–)	0.122000	0.92600
Instl	(–)	– 0.220000**	– 2.15400
Growth	(–), (+)	0.010000	0.97300
Size	(+)	0.086000***	5.85400
Earn	(–)	– 2.126000***	– 7.60500
Profit	(–)	– 0.193000	– 1.22300

$R^2 = 0.475$; $\chi^2 = 2.201$; DF = 2; $\rho = 0.333$

Endogen: Insider Ownership (Y_2)

Eksogen Prediction		*Coefficient*	*Critical ratio*
Dr	(–)	– 0.15300	– 1.10600
Instl	(–)	– 0.45800***	– 7.15600
Growth	(+)	0.03100	1.14600
Size	(–)	– 0.00200	– 0.09400
Stock	(–), (+)	0.07100***	5.27400

$R^2 = 0.538$	*	$\alpha = 0.10$	
$\chi^2 = 2.201$	**	$\alpha = 0.05$	
DF = 2	***	$\alpha = 0.01$	
$\rho = 0.333$			

direction of movement between the insider and the debt ratio. Meanwhile, the growth variable that has a positive coefficient is not significant, indicating if the company demonstrates the potential of encouraging developments, the equity financing is the last source of funding. Variable size has estimated coefficient significantly positive, it indicates that the bigger the company the more likely the use of debt becomes higher.

Variable earnings volatility has a negative value of the significant estimated coefficient; it shows that the higher earnings volatility will increase the risk of bankruptcy, so companies tend to choose low debt ratios. Recently, variable profitability has negative value of not significant estimated coefficient. All variables have a coefficient corresponds to the direction predicted, unless the insider ownership variables.

Equation Insider Structural Ownership (Insider - Structural Equation)

Institutional ownership variable has a negative correlation significantly against insider ownership, direction coefficient is consistent with the predictions of researchers, so that it can be said that the presence of institutional ownership is able to reduce the concentration of insider ownership. Institutional investors are

very concerned to secure a significant investment in the company so that the supervisory role they are doing could reduce opportunistic behavior of managers in running the company.

Variable rate debt has a negative coefficient; it means the use of instruments of debt policy associated with the structure of insider ownership is lower but the results of the analysis of these variables shows no statistically significant. Growth variable have positive estimated coefficients, it means that the insider benefited informational so that when companies show exciting development potential, it will increase the proportion of insider ownership, but the results of the regression analysis is not statistically significant. Variable size has a negative not significant estimated coefficient; the last variable stock volatility has a positive value of the statistically significant estimated coefficients. This suggests that when the company's performance is hard monitored from the outside, it results an increase in equity agency conflict. As a consequence, the owners prefer to oversee the performance of the company from within, so that the percentage of insider increases.

DISCUSSION

Debt-Ratio Equation

From the test results, the debt-ratio equation above shows that institutional ownership variable has a negative coefficient of 0.220 with a critical ratio of –2154, where the level negligent 0.05, the value of critical ratio is -1.98; this means institutional ownership variable is statistically significant at alpha of level 5%. From the test results of simultaneous equations debt ratios above, it can be concluded that the first hypothesis which says that institutional ownership affect the debt policy acceptable to the alpha level of 5%. The results of the analysis of these variables can be interpreted that institutional ownership is able to contribute positively in reducing the increasing ratio of corporate debt, therefore the presence of institutional ownership is able to act became effective supervision agency (effectively monitoring agents) to reduce the agency conflict posed by the debt.

Tests showed that the debt ratio equation variable results insider has a positive coefficient of 0.122 with a critical ratio value of 0.926. The value of the critical ratio at the alpha level of 10% indicates a figure of 1,658; this means that the variable is not significant insider. Therefore, these results cannot be generalized to the case of manufacturing companies listed in Jakarta Stock Exchange as a member of the research sample. The results of this study are consistent with the results of empirical studies of Brailsford, et al (2000) and Mehran, et al (1999). Variable growth has a positive coefficient (0.010), where this variable has a value of the critical ratio for 0973, the value of the critical ratio at the level of negligent 10% showed a value of 1658, so we can say this is not a significant variable. The results of the analysis of this variable cannot be generalized to the manufacturing firms in Jakarta Stock Exchange which became members of the sample in this study. Variable firm size describes the size of the company, in this study size has a coefficient signs of positive 0086, where this variable has a value of the critical ratio of 5,854, the value critical ratio at the level of alpha 1% by 2617; this means that the variable size are statistically significant at level of negligent of 1%. The implications of the results of the analysis of variable size that is, if the variable size increases, the tendency of the debt ratio in the case of manufacturing companies listed in Indonesia Stock Exchange will also show an increase.

Based on the test results, it indicates that the debt ratio equation variable earnings volatility has a negative coefficient of 2.2126, with a critical ratio value of –7605. The value of the critical ratio at the

alpha level of 1% showed the number of –2617. It can be concluded that the earnings volatility variables are statistically significant at alpha level of 1%. It could be argued that, if the standard deviation of earnings before interest and taxes are rising, the creditors will not provide loans to the company, so that the debt ratio will decline. This indicates that the variable earnings volatility to be one of the crucial considerations for parties lenders to make loans to the company, due to high volatility will lead to financial difficulties (financial distress) and eventually increase the cost of bankruptcy (bankruptcy cost).

Based on the test results of the first structural equation, it indicates that the variable profitability has a negative coefficient of 0193, where this variable has a value of –1 223 critical ratio. By using the alpha level of 10% of the obtained value of the critical ratio amounted to –1658, so we can say that this variable was not statistically significant. Therefore, the results of the analysis of this variable cannot be generalized to the manufacturing companies listed on the Jakarta Stock Exchange as members of the sample in this study.

Insider Ownership Equation

From the test results of insider equation, it shows that institutional ownership variable has a negative coefficient of 0458. This variable has a value of –7156 critical ratio, using alpha level of 1%, the value of the critical ratio of -2617. So it can be said that institutional ownership variable is statistically significant at 1% negligent level. From the analysis and testing above, it can be concluded that the second hypothesis in this study is acceptable, *i.e.* institutional ownership significantly negative effect on negligent insider level at 1%. The implications of the results of the analysis of these variables is the presence of institutional investors in an industrial manufacturing company listed on the Indonesia Stock Exchange had a significant effect in controlling the increasing proportion of insider ownership.

The test results show that the variable equation insider debt ratio (*dr*) has a negative coefficient value by 0153, with a value of –1 106 cr. using the alpha level of 10% was obtained at –1658 cr value, so it can be said that the variable was not statistically significant *dr*. With no significant results of the analysis of this variable, then it cannot be generalized to the manufacturing companies listed on the Stock Exchange as members of the sample in this study.

Based on test results of insider ownership equation, it shows that the growth variable has a positive coefficient of 0.031 with cr value by 1146. By using the alpha level of 10% was obtained values cr by 1658, so it can be said that the growth was not a significant variable. A relationship that is positive indicates that when companies show potential developments in the future, then the manager is willing to increase the proportion of its stake in the company. However, with no significant growth variables in this study, resulting in the analysis results cannot be generalized to the manufacturing companies listed on the Stock Exchange as a member of the research sample.

Based on the results of testing against insider ownership equation, it is suggested that the size variable has a value of -0002 coefficient, with a value of –0094 cr. At the alpha level of 10%, it was obtained critical value of -1658, so we can say this variable was not statistically significant. The direction of negative coefficient on insider equation shows that when managers are able to control the company, they will increase the proportion of ownership. In other words, in smaller companies the proportion of insider ownership is greater than in much larger companies.

Variable volatility has a positive coefficient of 0071 with the critical value of 5,274. In the alpha level of 1%, it was obtained cr by 2617, so it can be said that the volatility of the stock variables are statistically significant at alpha level of 1%. This indicates that the variable stock-volt is one important factor to consider in determining the policy of non-financial (insider-ownership) which aims to minimize the possibility of agency conflicts that occur in manufacturing companies listed on the Indonesia Stock Exchange as members of the sample in this research.

CONCLUSION

Based on the analysis and discussion, it can be drawn some conclusions:

1. Considering the two endogenous variables that have jointly determined the nature of endogenous variables, the SEM method is more appropriate than the method of OLS. Simultaneous testing of both structural equation (debt ratio-equation and insider equation) using the method of SEM showed that all independent variables used in this study represents a proxy for agency costs so that it can be used as an instrument decider against debt policy and insider ownership in minimizing conflicts agency of company. This can be seen with Goodness of fit index value greater than 9 (the recommended value), the model produces df positive and very low residual value. SEM analysis of output showed that only 47.50% the changes that occur in the debt ratio (dependent variable) can be explained or influenced by independent variables in this study model. From the value of R-square of both equations, it is clear that there are many other variables outside the model of this study are worth considering and influential in determining whether a financial policy (debt policy) as well as a policy of non-finance (insider ownership) in minimizing the agency conflict.

2. Tests on the first hypothesis shows that institutional ownership variable has a negative relationship and statistically significant 0.220 (c.r = –2154) in the alpha level of 5%. These results indicate that the presence of institutional investors in the companies that the research sample can be used as a mechanism to minimize conflicts posed by the debt agency. The results of this study are consistent with previous studies that found an increase in institutional ownership can replace the role of debt in minimizing the agency conflict. So therefore, this result is able to prove that the first hypothesis which says that institutional ownership affects the debt ratio can be received at the alpha level of 5%. Meanwhile some of the control variables in the first equation show the following results: insider ownership variables have a positive not significant relationship. This shows that when a significant proportion of insider ownership, they were reluctant to fund the company through equity financing. This is because of the fear of losing control over the company, so they prefer to meet the needs of funds through debt financing. Variable growth has no significant positive relationship to the debt ratio. While the variable size also has a positive coefficient in accordance with the direction predicted 0.010 and significant (cr = 5,854) at the level of 1% negligent. Thus the ratio of corporate debt tends to increase along with the scale of the company. Variable earnings volatility has a negative coefficient of 2.126 in accordance with the predicted and significant (c.r. = –7605) in alpha level of 1%. Profit last variable has a value and no significant negative coefficient. This means by regard to the outcome of SEM analysis on variable earnings volatility, size, it is significant enough to be considered important in determining the debt policy unlisted company manufacturing company on the JSE in addition to the influence of the main variables of institutional ownership.

3. The test results of both hypotheses suggests that institutional ownership variable has a negative relationship 0458 significantly (cr = –7156) at the level negligent of 1%. These results indicate that the presence of institutional ownership in companies as the samples of this study can be used as an effective oversight mechanisms to minimize the agency conflict equity. The results of this study are consistent with previous studies that found an increase in institutional ownership can replace the role of insider in minimizing the agency conflict. Thus these results prove that the second hypothesis which says that the institutional ownership of insider ownership can be accepted at a rate of 1% negligent. Meanwhile, several variables are used as controls in the second equation shows the following results: debt ratio variables have a causal negative not significant relationship 0153 (cr = –1106). Variable growth has a positive coefficient value of 0.031 but not significant. Meanwhile, the size variable has a negative not significant coefficient of 0.0020. Recently, variable volatility of the stock that has a direction 0071 is significantly positive coefficient (cr = 5,274). This means that if volatility increases, then the manager will increase the proportion to the company, this is done in order to improve supervision on the performance of companies that are very difficult to do from outside the company.

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