



OWNERSHIP STRUCTURE ON COMPANIES FINANCIAL LEVERAGE DECISION: EVIDENCE FROM INDONESIA

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Abstract

The ownership structure in a firm is considered as crucial instrument for alleviating agency problems (Sun, Ding, Guo, and Li, 2017). The wider the ownership, the longer decision might be taken. The purposes of this study are to analyze the effect of ownership structure, namely managerial ownership and institutional ownership, stock market liquidity, and profitability on financial leverage. This research was conducted for 4 years from the period of 2014 to 2018. This study used 14 companies as samples. Based on the results of research and data analysis it is shown that: (1) Managerial Share Ownership has a negative effect on financial leverage, (2) Profitability (MSO) has a negative effect on financial leverage, (3) Share Turnover (MSO) has no effect on financial leverage, (4) IO has a negative effect on financial leverage, (5) Profitability (IO) has a positive effect on financial leverage, (6) Share Turnover (IO) has no effect on financial leverage. The implications of the results above are as follows: theoretically, this research provides insight into the implementation of agency theory in funding decisions. Because this research was carried out in manufacturing companies listed in LQ45, highlight the generalization of theories in all contexts, especially in developing countries such as Indonesia. At a practical level, this result can be used by investors, fund managers as a reference in making funding decisions, whether to prioritize internal or external funding.

Keywords: Ownership Structure, Financial Leverage, Profitability, And Stock Market Liquidity

INTRODUCTION

Agency theory is a well-known theory in corporate finance. The theory explains how a principal assigns specific responsibility to an agent. When the needs of the principle and the agent coincide, an "agency problem" occurs, with the agent's interests gaining precedence over the principals. The agency problem is a frequent occurrence in businesses. The ownership structure is a component of corporate governance, which aims to balance shareholders' interests and minimize agency costs. The ownership structure of a firm is made up of a variety of entities, including corporations, institutions, and managers. There are two types of share ownership: managerial and institutional. Despite emerging evidence in the financial literature that agency conflicts in ownership structures have an effect on firm performance (Morck, Shleifer, & Vishny 1988; Anderson, Mansi, & Reeb 2003), few studies have explored how ownership structure affects a firm's capital structure when agency conflicts are considered.

Additionally, the relationship between management ownership and finance decision in the USA and China has been studied extensively (Hayat and Jebran, 2018). A non-linear relationship between management share ownership and external funding was argued by these researchers. Similarly, institutional ownership and debt were positively correlated in the USA but negatively correlated in China. A study conducted in the United Kingdom found a positive correlation between institutional ownership (IO) and a firm's leverage level. Stock issuance increased over bonds, reducing MSO's leverage (Sun et al, 2015). This is one of the first efforts to define the relationship in developing economies, specifically Indonesia, as the majority of previous research in similar frameworks has been conducted in emerging economies. Emerging economies' capital



markets are less liquid than developed economies', contributing to higher volatility and slower growth. Additionally, these markets have limited capital access, slow financial market expansion, and limited institutional ownership (Claessens and Yurtoglu, 2013).

In MSO, the manager has the authority to increase the company's borrowing in order to invest it, with the goal of increasing the company's future profits. The company's return on equity (ROE) will improve as a result of the higher investments, which would eventually result in an increase in manager bonuses and income. As a result, the researchers believe that MSO has a tendency to expand borrowing. Institutional shareholders own a substantial portion of the stock, which implies it possess greater incentives and voting power when it comes to deciding financial policies. Numerous studies conducted from a managerial perspective indicate that the funding decisions of companies are heavily influenced by their managers' objectives, desires, behavior, and preferences (e.g., Grossman & Hart, 1980; Jensen, 1986; Myers & Majluf, 1984; Zwiebel, 1996; Brailsford et al., 2002; Pindado and De La Torre, 2011). In addition, market valuation interplays with ownership structure in determining leverage levels and external financing policies. Pedersen and Thomsen (2000) consider stock market valuation a probable determinant of firm ownership structure. Multiple types of research have been done regarding the relationship between equity liquidity and stock returns (Pastor and Stambaugh, 2003), share price information quality (Fang et al., 2009), capital costs (Acharya and Pedersen, 2005; Amihud and Mendelson, 1986; Chang et al., 2010), and also firm value (Butler et al., 2005; Frieder and Martell, 2006; Lipson and Mortal, 2009; Udomsirikul et al., 2011). The purpose of this research is to determine how MSO affects the financial leverage of the organization. The second objective is to determine how institutional shareholders affect the financial leverage of the firm.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

The agency relationship arises when one or more persons employ an agent to provide a service and delegate decision-making authority to the agents (Jensen and Meckling 1976: 57). Owners or shareholders appoint a manager to manage their firm. The authority granted by the shareholders to the manager to handle the firm's finances may be abused to benefit the manager rather than the shareholders. Asymmetric information occurred in this scenario. As opposed to the shareholders, the manager has a more profound grasp and understanding of the company's position and prospects. Generally, the manager must inform the shareholders of the company's status. The information asymmetry increases the likelihood of managers organizing the report to suit their interests, lowering its credibility. The sequence's aftermath causes agency conflict. According to Bringham and Houston (2006), managers have more decision-making power than stockholders, leading to a conflict of interest for both sides, termed agency conflict. Agency conflict can be mitigated by establishing a monitoring mechanism that aligns managers' and shareholders' interests; this technique is known as agency cost. Two options exist to reduce agency costs: institutional ownership (IO) and managerial share ownership (MSO).

Signaling Theory

Signaling theory implies that decisions on capital structures are used to transmit personal knowledge on the company's potential earnings when asymmetry occurs between managers and investors. Asymmetric information propels managers to use leverage and dividends to signal private information about the company's performance and potential earnings of the firm (Miller and Rock, 1985).

Pecking Order Theory

Pecking order theory states that companies are inclined to finance their investment depending on their internal financial sources when asymmetric information occurs. Moreover, if



it is inadequate, companies will seek external financing. In addition, when adverse selection problems emerge as an effect of asymmetric information on the capital markets, companies will rely first on their retained earnings, then on debt financing, and lastly on their equity to fund new investments (Myers and Majluf, 1984).

Market Timing Theory

The market timing theory argues that companies control the timing when they are issuing equity. The new stock will be issued when the price is overvalued, and buy its shares when it is undervalued. In addition, fluctuations in the stock prices will influence capital structures (Visinescu et al., 2009).

Financial Leverage

Leverage occurs when a company's assets are financed with debt or preferred stock, causing fluctuations in shareholder income. Financial leverage, like operating leverage, can raise returns but also risk. The relationship between operational profits and earnings per share is associated with financial leverage. While the leverage ratio is one of numerous financial metrics that examines how much capital is borrowed (loans). It assesses a company's financial stability. The leverage ratio is significant because companies utilize a mix of stock and debt to fund their operations. Understanding how much debt a company has helps determine whether it can pay its debts on time.

Highly leveraged corporations have more volatile shareholder returns than those with less debt. Financial leverage is generally measured by the interest payments to operating profit ratio. Because corporations must consistently pay interest and principal on debt as part of their contract with lenders, but they do not have to pay preferred stock dividends if their earnings are low, debt financing is the riskiest option for shareholders (Trygve Haavelmo, A Study in the Theory of Investment, 1960: p.3)

External Financing

External financing is a concept that describes funds obtained by businesses from sources other than internal sources. On the other hand, internal funding is in opposition to external financing, which is mainly comprised of profits retained by the company for investment. External funding is often considered more expensive than internal financing, as the firm is frequently required to pay a transaction cost to receive it. Proper ownership structure management can have a significant impact on company leverage levels, reiterating the arguments of Brailsford, Oliver, and Pua (2002), Florackis and Ozkan (2009), and Friend and Lang (1988).

Institutional Ownership

Institutional ownership is the proportion of available stock in a corporation possessed by mutual or pension funds, insurance companies, investment firms, private foundations, endowments, or other significant entities that manage assets on behalf of others. According to the active monitoring theory, institutional investors can help to decrease managerial moral hazard by constantly monitoring corporate performance (Jensen, 1986; Shleifer & Vishny, 1986). The benefits of cash flow monitoring compel external investors to cover the expenditures. In comparison to individual investors, institutional investors can oversee management more effectively because they have access to various sources of information and a significant investment in a company. A high degree of institutional ownership ensures that management will stick to company strategies in the shareholders' best interests (Barclay & Warner, 1993; Grossman & Hart, 1980).

Managerial Share Ownership

MSO is established to incentivize Executives to accumulate and hold a significant amount of common stock in the Company. A capital structure is adopted by entrenched managers who trade



off empire-building ambitions with the necessity for efficiency and control. A takeover is avoided when managers willingly issue debt to limit their liability and avoid unproductive investment. Thus, issuing debt implies a firm's commitment to operating improvements and ability to repay debt (Leland&Pyle,1977).

A significant number of studies demonstrate that managers' goals, ambitions, and preferences strongly impact business financing decisions (e.g., Grossman & Hart,1980; Jensen,1986; Myers & Majluf, 1984; Zwiebel, 1996). Jensen (1986) argues that managerial moral hazard affects capital structure decisions. Managers may undertake projects with a negative net present value (NPV) to pursue growth, particularly if the firm has a considerable amount of free cash flow remaining after funding all positive-NPV projects. Debt commitments can diminish free cash available for managers' wealth (Grossman & Hart, 1980). Nonetheless, managers may avoid debt to preserve managerial opportunism, consistent with actual findings showing that organizations with greater management control utilize less debt (Berger et al., 1997). Thus, risk-averse managers are less willing to increase company debt levels to protect undiversified human capital.

Stock Market Liquidity

Stock market liquidity is a fundamental influence of the cost of raising capital. Consequently, security prices decrease just before issuance as investors are cautious about the information asymmetry problem (Myers, 1984). The infinite liquid stock has interested buyers and sellers willing to trade at any price. Thus, management can limit price impact by issuing stocks when liquidity is high (Baker and Stein, 2004). According to Weston, Butler, and Grullon (2005), high liquidity stocks lower issuance costs. Studies have shown that substantial stock liquidity affects a company's capital structure since management raises funds by issuing equity over bonds. Baker and Wurgler (2002) propose that enterprises raise external capital when the cost of equity is temporarily low and that prior equity issues have a lasting effect on leverage. According to Welch (2004), stock price fluctuation is one of the critical factors of capital structure changes. In a hot market, a company's stock price may be inflated due to increased investor demand. Due to equity issues and share transactions, this automatically reduces debt levels. Pedersen and Thomsen (2000) believe the stock market valuation influences corporate ownership structure.

Profitability

Profitability is a parameter that can influence a firm's value. *Profitability* is the income generated by sales (Astuti 2004:36). According to Ross (1977), management uses debt to attract outsiders to the firm's performance. Firms with high projected financial performance may have greater ROA, therefore employing "total assets" should be more efficient. Additionally, ROA can capture the marginal efficiency of additional borrowings, whereas ROE is unable to do so. The researchers must reevaluate the drivers of capital structure throughout time as institutional arrangements change (Frank and Goyal, 2009). Profitability is a key factor in determining leverage. According to the pecking order theory, profitable companies use internal financing to fund future projects.

In contrast, firms with a low-profit rate prefer to use external financing due to their low retained earnings and profits (Myers & Majluf, 1984). The empirical evidence appears to contradict the theories mentioned above' predictions. Several studies have yielded data that support the pecking-order theory (Lemmon, Roberts & Zender,2008; Shyam-Sunder & Myers, 1999). However, other research shows the opposite (Chirinko & Singha, 2000; Leary & Roberts, 2010). Because several studies produced different results, the researcher decided to include profitability in the investigation (ROA).

Hypothesis

According to two conflicting theories, interest alignment theory (Jensen & Meckling, 1976) and managerial entrenchment theory (Fama & Jensen, 1983), several findings discover a



curvilinear relationship between MSO and leverage (e.g., Brailsford et al., 2002; Florackis & Ozkan, 2009). Managers employ debt financing to offset the agency cost of free cash flow in this situation (Jensen, 1986), thereby regaining control (Zwiebel, 1996). When MSO reaches a "changeover" point, managers can adjust debt levels to their benefit (Brailsford et al., 2002). Entrenched managers have more incentive to limit corporate debt levels, avoid interest payment obligations, and reduce the danger of bankruptcy and loss of entrenchment (Jensen, 1986; Zwiebel, 1996). Managers who have no ownership share in the company are more likely to incur additional debt to boost the firm's value (Grossman and Hart, 1982). According to Jensen and Meckling (1976), debt diminishes management's controllable free cash flow. Managers ensure timely interest payments and minimize resource usage for personal gain.

Additionally, Grossman & Hart (1982) argued that managers use debt to finance their operations for three reasons. First, if managers own profit sharing or stock options, these will incentivize them, as profit sharing and stock options are tied to the firm's value. Second, the company charter may permit or even require the firm to assume control. In this situation, undervalued enterprises make for easy takeover targets. The manager's interest is to preserve or increase the firm's value and avert any prospective takeover. Third, if management relies entirely on stock to finance their operations, potential investors are red flags.

Debt financing demonstrates management's commitment to profit maximization for the investor, even if debt limits managerial discretion. Thus, management has a greater proclivity to use more debt in order to attract additional investment. Increased investment indicates that managers will consume more perquisites. We anticipate a substantial correlation between managerial ownership and the choice between stock and bonds, based on the underlying agency theory and survey evidence to date (e.g., Bayless & Chaplinsky, 1996; Berger et al., 1997). According to Myers and Majluf's (1984) adverse selection model, managers prefer bond issuance over equity issues to mitigate the underfunding problem. This issue arises due to information asymmetry, in which current shareholders are better educated about a firm's value than prospective investors are. Assuming management acts in the best interests of existing shareholders, they will only issue stock to finance a new project if the firm lacks sufficient internal cash or hazardous growth prospects. As a result, the market undervalues additional shares.

Firms will reject even initiatives with a positive net present value if the cost of new capital is greater than the project's value. This underinvestment can be mitigated by funding the project through a less susceptible mechanism to market price movements. As a result, managers will prioritize internal funds first, followed by debt issues, and last by equity offerings, as pecking order theory suggests (Myers & Majluf, 1984). Nonetheless, contemporary managers, according to numerous conjectures, have a proclivity towards stock issuance. To begin with, regularly paying interest on debt minimizes the likelihood of management overinvestment (Jensen, 1986). Second, managers are averse to supervision by external debt creditors (Zwiebel, 1996). Third, excessive debt levels are associated with an increased likelihood of financial distress and bankruptcy. Managers have a non-diversifiable employment risk since their firm's survival, bankruptcy, or financial crisis may result in job loss or demotion (Brailsford et al., 2002; Friend & Lang, 1988). In other words, when the risk of losing control is lower, corporations are more willing to fund advancement through share issuance. The following hypothesis is proposed.

H₁: Managerial ownership has a negative impact on the leverage of a company.

Management uses debt to indicate how well the organization is performing to outsiders (Ross, 1977). Firms with high projected financial performance may have greater ROA, therefore employing "total assets" should be more efficient. It also captures the marginal efficiency of further borrowings where ROE fails. On the other hand, institutional ownership sends a positive signal to prospective investors. Institutional investors direct management, discipline it and improve the firm's value. Institutional investors can help alleviate the managerial moral hazard



problem (Jensen, 1986; Shleifer & Vishny, 1986). Empirical evidence shows that IO has better incentives to maximize business value and longevity.

According to Hayar M and Jebran K (2018), institutional shareholders have a more diverse portfolio than managers and other shareholders. Direct monitoring of each investment in the portfolio would thereby increase the overall monitoring cost. So, institutional shareholders are more inclined to use debt as a monitoring mechanism rather than direct monitoring. In terms of signalling theory, institutional ownership benefits creditors by reducing managerial discretion and debt costs.

H₂: Institutional ownership has a negative impact on the leverage of firms.

Frieder and Martell (2006) observed that high leverage reduces agency costs and increases equity liquidity. Additionally, they discovered that leverage increases as liquidity declines due to a high transaction cost for equity financing. Moreover, high stock liquidity reduces equity cost, increasing reliance on equity financing and decreasing firm leverage (Lipson and Mortal, 2009). Another study in emerging markets indicated a negative relationship between stock liquidity and financial leverage (Udomsirikul et al., 2011). This implies that firms with a high level of liquid equity are unusually low leveraged, implying that stock liquidity is a crucial factor in emerging and developed economies' capital structures. Since emerging economies have distinct characteristics, various elements influence capital structure decisions in India (Sharma and Paul, 2015). There is ongoing debate concerning the relationship between leverage and stock liquidity in emerging economies.

Companies in emerging countries suffer from a high degree of information asymmetry and low stock liquidity. It shows the difficulty of raising both equity and debt financing. Asymmetric information demonstrates inconsistency, stock illiquidity, and adverse selection, all of which negatively impact a firm's creditworthiness and access to debt markets. As a result, companies with restricted access to public bond markets have lower leverage ratios (Faulkender and Petersen, 2016). Firms with limited liquidity will be unable to access debt financing in emerging markets countries.

H₃: Stock market liquidity has a positive impact on financial leverage.

According to the pecking-order theory, profitable businesses utilize less debt financing because they can accrue significant sums of retained earnings. Profitable organizations tend to employ internal finance for future projects, while less profitable enterprises choose external financing due to low retained revenues and profits (Myers & Majluf, 1984). Empirical evidence appears to indicate a range of outcomes consistent with the expectations of the theories as mentioned earlier. Numerous investigations have produced findings that support the pecking-order theory's predictions (Lemmon, Roberts & Zender, 2008; Shyam-Sunder & Myers, 1999). However, several investigations have proven the contrary (Chirinko & Singha, 2000; Leary & Roberts, 2010). Thus, the researcher anticipates that, given a stable economic environment, profitability, or in this case, return on asset, will affect financial leverage. We shall test the following hypothesis:

H₄: Return on assets has a negative effect on financial leverage.

RESEARCH METHODOLOGY AND DATA ANALYSIS

Penelitian ini menggunakan jenis penelitian survey terhadap karyawan PT. Mandiri Utama. This study employs a hypothetico-deductive approach. hypothetico-deductive reasoning derives conclusions from logical analysis (Sekaran, 2003) and an empirical study on manufacturing enterprises classified as LQ45 and listed on the Indonesia Stock Exchange. The research aims to examine the effect of ownership structure and stock market liquidity on manufacturing firms' leverage and financing decisions classified as LQ45 and listed on the Indonesian Stock Exchange. The sample for this study is manufacturing firms classified as LQ45 that are publicly traded on the



Indonesian Stock Exchange. Purposive sampling was utilized in this study. A purposive sampling method is designed on specific criteria and considerations (Sugiyono, 2013). The criteria used in this research are as follows: a. Manufacturing companies included in LQ45 and listed in Indonesia Stock Exchange. b. Manufacturing companies that have published their financial report for more than five years.

Two methods were used in this research those are literature study method and the documentation method. The literature study method is gathered by analyzing varieties of literature, references, and theoretical basis correlated with the study. Documentation method collected by obtaining secondary data in the form of financial performance report, data panel in 2014-2019. The panel data regression model is used in this research. Panel data consists of observations from the same cross-section or unit across a period (Gujarati, 1993). When the topic (time series, cross-section, or unit) is the same quantity, the observation is balanced. When each subject has a different amount, the panel is unbalanced. Panel data are classified into two types: short panel and long panel. When the cross-sectional area (N) is greater than the period (T), the panel data meets the criteria for a short panel. Moreover, if the amount of N is less than T, this is referred to as a long panel. Regression equation model in this study is:

$$LEV_{it} = \beta_1 + \beta_2 LIQUIDITY_{it} + \beta_3 MSO_{it} + \beta_4 IO_{it} + \beta_5 Liq_{it} + u_{it} \dots \dots \dots (1)$$

Where:

i = unit cross section (Manufacturing firms LQ45)

t = unit time series (year)

u = residual value

LEV = firms' leverage

LIQUIDITY = stock market liquidity

MSO = managerial share ownership

IO = institutional ownership

Panel data are frequently used in the study of finance to observe companies across time. Unobserved firm effects are particularly prevalent in studies on corporate finance decisions, where regression residuals can be related across firms and years. If the residuals are independent and uniformly distributed, the standard errors in Ordinary Least Square (OLS) regression are unbiased (Petersen, 2009). As a result, the technique used in this study is OLS.

OLS (Ordinary Least Square) Pooled Model

An assumption applies in this research is that all manufacturing firms in LQ45 have the same coefficient regression. Thus, the OLS equation in this study is as follow:

$$LEV_{it} = \beta_1 + \beta_2 LIQUIDITY_{it} + \beta_3 MSO_{it} + \beta_4 IO_{it} + \beta_5 Liq_{it} + u_{it} \dots \dots \dots (2)$$

RESULT AND DISCUSSION

In this study, the researcher looked at manufacturing companies that were listed on the Indonesia stock exchange (IDX) and classified as LQ45 enterprises. The researcher analyzed data from the years 2014 to 2018. This research aims to determine whether and to what extent agency conflicts in ownership structure affect firm leverage ratios and external financing decisions by selecting companies that meet the criteria of MSO and IO. According to IDX statistics, 45 enterprises meet the LQ45 criteria. The researcher identified 14 manufacturing companies by purposive sampling. The following is a list of companies:

Table 1 List of Companies

NO	CODE	NAME OF COMPANIES
1	ASII	Astra International Tbk
2	SMGR	Semen Indonesia (Persero) Tbk
3	GGRM	Gudang Garam Tbk
4	BRPT	Barito Pacific Tbk
5	INDF	Indofood Sukses Makmur Tbk



6	TPIA	PT Chandra Asri Petrochemical Tbk
7	CPIN	Charoen Pokphand Indonesia Tbk
8	HMSP	HM Sampoerna Tbk
9	INKP	Indah Kiat Pulp & Paper Tbk
10	ICBP	Indofood CBP Sukses Makmur Tbk
11	INTP	Indocement Tunggul Prakarsa Tbk
12	KLBF	Kalbe Farma Tbk
13	SRIL	PT Sri Rejeki Isman Tbk
14	UNVR	Unilever Indonesia Tbk

Classical Assumption and Normality Test

Managerial Share Ownership

The model is categorized to be normally distributed if the graph is forming a bell-shaped. However, this assessment raises subjectivity, and therefore, another way to look at it is the value of probability. The model is said to be normally distributed if the probability value is > 0.05. In this case, the model has a probability value of 0.245705 > 0.05.

Institutional Ownership

The model is assumed to be normally distributed if the graph is bell-shaped. However, this assessment raises subjectivity, and therefore another way to look at it is the value of probability. The model is said to be normally distributed if the probability value is > 0.05. In this case, the model has a probability value of 0.286409 > 0.05.

Descriptive Analysis

Managerial Share Ownership

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	35	-0.0600	16.4600	7.8034	4.0708
Share Turnover	35	0.0003	0.7557	0.1484	0.1501
MSO (%)	35	0.0000	0.1394	0.0280	0.0392
DER	35	0.3700	1.6100	0.8183	0.2645
Valid N (listwise)	35				

Based on Table 2, the first variable is Return on Asset (ROA) (X4). The total number of samples is 35, and the minimum value answer is -0.0600, with the maximum value being 16.4600. The mean value of the X4 variable is 7.8034, with the value of the standard deviation being 4.0708. It means that the mean value is greater than the standard deviation value, indicating that the X3 variable is good. Share Turnover (X3) that can be seen N of total respondents are 35, and the minimum value answers are 0.0003, for the answer to the highest value are 0.7557. The mean is obtained with a total value of 0.1484 with a standard deviation of 0.1501. It means that the mean value is lower than the standard deviation. The test results indicate that standard deviation reflects low deviations, so the data distribution shows a typical result.

In variable MSO (X1) that can be seen, N of total respondents is 35, and the minimum value is 0.000, for the maximum value answers are 0.1394. The mean is obtained with a total value of 0.280 with a standard deviation of 0.0392. It means that the mean value is lower than the standard deviation. The test results indicate that standard deviation has a low reflection from the standard deviations, so the data distribution is normal. In Table 2, that can be seen N of total respondents are 35, the minimum values for the variable Deb to Equity (DER)(Y) are 0.3700, and for the highest value, answers are 1.6100. The mean or the average value of this variable is 0.8183, with a standard deviation value are 0.2645. It means that the mean value is greater than the standard deviation. It indicates that the Y variable is good. The results of the test indicate that



standard deviation has a low reflection to the deviations, so the data distribution shows a normal result.

Institutional Ownership

Table 3. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DER	35	0.150	2.650	0.991	0.817
ROA	35	1.940	46.660	17.043	12.669
Share Turnover	35	0.000	2.054	0.238	0.522
IO %	35	56.070	99.880	92.332	12.764
Valid N (listwise)	35				

Based on Table 3, the first variable is DER (Y). The total number of samples is 35, and the minimum value answer is 0.150, with the maximum value being 2.650. The mean value of the Y variable is 0.991, with the value of the standard deviation being 0.817. It means that the mean value is greater than the standard deviation value, indicating that the Y variable is good. ROA (X4) that can be seen N of total respondents are 35, and the minimum value answers are 1.940, for the answer to the highest value are 46.660. The mean is obtained with a total value of 17.043 with a standard deviation of 12.669. It means that the mean value is greater than the standard deviation. It implies that X4 variable is good. The test results indicate that standard deviation reflects low deviations, so the data distribution shows a typical result.

In variable Share Turnover (X3) that can be seen, N of total respondents is 35, and the minimum value is 0.000, for the maximum value answers are 2.054. The mean is obtained with a total value of 0.238 with a standard deviation of 0.522. It means that the mean value is lower than the standard deviation. The test results indicate that standard deviation has a low reflection from the standard deviations, so the data distribution is normal. In Table 2, that can be seen N of total respondents are 35, the minimum values for the variable IO (X2) are 56.070, and for the highest value, answers are 99.880. The mean or the average value of this variable is 92.332, with a standard deviation value are 12.764. It means that the mean value is greater than the standard deviation. It indicates that the X1 variable is good. The results of the test indicate that standard deviation has a low reflection to the deviations, so the data distribution shows a normal result.

T-Test Analysis

Managerial Share Ownership

Table 4. MSO T-test Statistics

No	Hypothesis	Sig. value	T statistics T table (2.0301)	Explanation	Hypothesis
1	Profitability has an influence financial leverage	0.0000	-6.214167	Negatively influence	Accepted
2	Share turnover has an influence on leverage	0.7966	0.260511	Has no influence	Rejected
3	Managerial share ownership has an influence on financial leverage	0.0011	-3.695910	Negatively influence	Accepted

Notes: The positive and negative values on t statistics do not indicate whether the size of the value is big or small. it indicates the direction of its influence.



Institutional Ownership

Table 5. IO T-test Statistics

No	Hypothesis	Sig. value	T statistics T table (2.0301)	Explanation	Hypothesis
1	Profitability has an influence on financial leverage	0.0095	2.764215	Positively influence	Accepted
2	Share turnover has an influence on leverage	0.9396	-0.076356	No influence	Rejected
3	Institutional Ownership has an influence financial leverage	0.0065	-2.917239	Negatively influence	Accepted

Discussion

Many studies show that managers' objectives, desires, behaviors, and preferences strongly impact the firms' financing decisions (e.g., Grossman & Hart, 1980; Jensen, 1986; Myers & Majluf, 1984; Zwiebel, 1996; Brailsford et al., 2002; Pindado and De La Torre, 2011). Numerous tests have been conducted utilizing data from companies listed on the Indonesian Stock Exchange (IDX). Specifically, LQ45 manufacturing companies. The value of Tstatistic is -3.695910 2.0301 (T-table), indicating that MSO affects financial leverage. In this scenario, MSO reduces financial leverage. As a result of this, the hypothesis is accepted.

Institutional investors supervise and discipline management directly and contribute to the firm's value growth. Institutional investors can reduce managerial risk by regularly monitoring corporate performance (Jensen, 1986; Shleifer & Vishny, 1986). According to Hayar M and Jebran K (2018), institutional shareholders have a more diverse portfolio than managers and other shareholders. In terms of signaling theory, institutional ownership benefits creditors by reducing managerial discretion and debt costs. Based on the initial empirical investigations, the researcher hypothesized that IO affects financial leverage. T-test result indicates T-statistic -2.917 2.0301 (T-table), supporting the hypothesis that IO influences financial leverage. It has a negative effect on financial leverage.

Frieder and Martell (2006) found that high transaction costs for equity financing increase leverage when liquidity decreases. Additionally, another study discovered that higher stock liquidity reduces costs of equity, increasing the reliance on equity financing and decreasing corporate leverage (Lipson and Mortal, 2009). The T-test results indicate that both MSO and IO companies' stock market liquidity does not affect financial leverage. The MSO t-statistic is 0.2605 (t-table) while the IO t-statistic is -0.0763 (t-table). In this scenario, the hypothesis rejects. The researcher supports Elbannan's (2017) argument that developing countries have unique market conditions and that country and institutional factor may influence firm-specific variables. Indirectly, each emerging country may have various capital structure factors.

Based on the pecking order theory, under the assumption of stable economic condition, profitability, the researcher generated a hypothesis that says the return on asset influences financial leverage. The result of the T-test for return on assets of MSO companies on financial leverage shows that t-statistic is -6.2141 < 2.0301 (t-table). This implies that the return on assets of MSO companies is negatively influencing financial leverage. For IO companies, the t-statistic is 2.764 > 2.0301 (t-table), which indicates that the return on assets of IO companies is positively influencing financial leverage. Therefore, the hypothesis is supported.

CONCLUSION

After performing thorough analysis to unveil the impact of ownership structure on companies' financial leverage and financial decision: evidence from Indonesia, the following



results emerged: Managerial Share Ownership has a negative effect on financial leverage, Profitability (MSO) has a negative effect on financial leverage, Share Turnover (MSO) has no effect on financial leverage, IO has a negative effect on financial leverage, Profitability (IO) has a positive effect on financial leverage, Share Turnover (IO) has no effect on financial leverage.

Theoretically, this study provides insight into the implementation of agency theory in funding decisions. As the study was carried in the manufacturing firms listed in LQ45, it highlights the generalizability of the theory across contexts, especially in emerging countries like Indonesia. At the practical level, this can be used by investors and fund managers as references in making a funding decision, whether to prioritize internal or external funding.

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