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THE EFFECT OF MANAGERIAL OWNERSHIP AND INSTITUTIONAL OWNERSHIP ON DEBT POLICY : EVIDENCE FROM MANUFACTURING FIRM LISTED ON INDONESIA STOCK EXCHANGE

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ABSTRACT

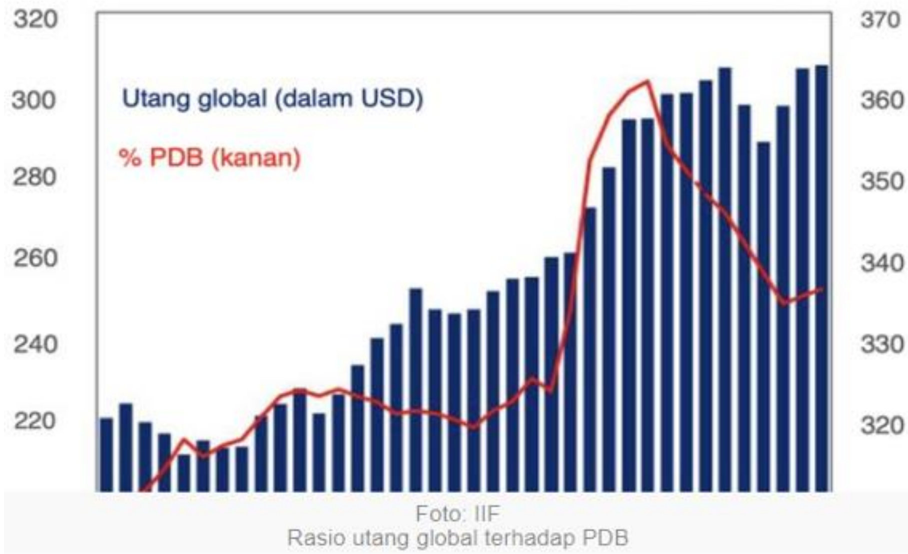
This study was conducted to test variable impact managerial ownership and institutional ownership on debt policy. The study used the method purposive sampling. Some of the sample criteria or considerations used in the study are as follows: companies that fall under the manufacturing sector; companies that release financial reports for the years 2018 to 2022; excludes companies that underwent an initial public offering (IPO) and filed for bankruptcy between 2018 and 2022; and companies that have been in business for at least five years, so that a sample was obtained after being chosen using a sampling technique of 28 manufacturing companies listed on the Indonesia Stock Exchange (IDX).

The data in this study were processed using Smart-PLS with partial equation modeling. The hypothesis testing method uses a significance level of 5%.The results showed that managerial ownership has no effect on debt policy and institutional ownership have a significance positive on debt policy.

Keywords : Managerial Ownership, Institutional Ownership, Debt Policy

1. INTRODUCTION

Data from SNBC Indonesia reported that the increase in interest rates was due to global debt which reached a record high of US$ 307 trillion or equivalent to Rp. 4,723 quadrillion, which occurred in the first half of 2023. The increase in interest rates reached US$ 10 trillion starting in the first semester of 2022, where America America, Japan, England and France experienced very high debt increases of more than 80% of the global total compared to other industrial countries. Apart from that, developing countries such as Brazil, India and China experienced drastic increases with the debt to GDP ratio increasing in the fourth quarter of 2022 from 334 to 336% due to an increase in global debt.



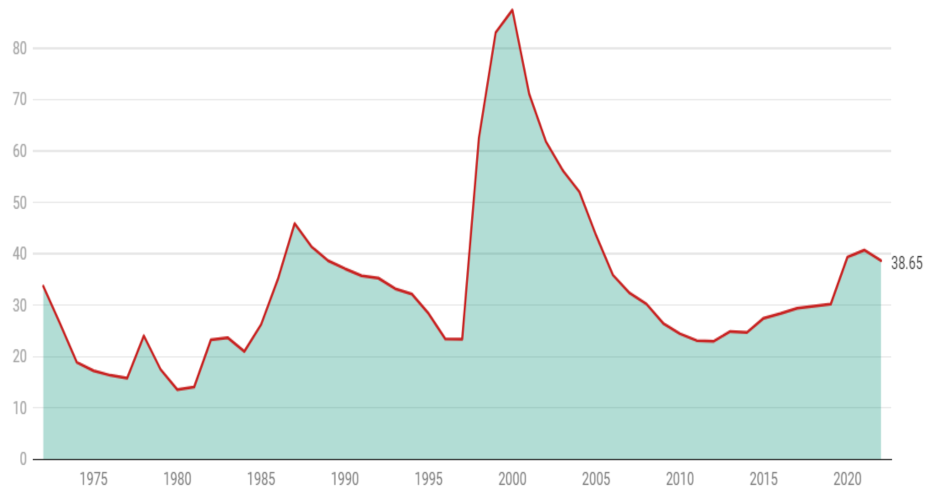
Source : cnbcindonesia.com

Based on a report from the International Finance Institute (IIF), the global debt ratio is likely to increase to 337 in September 2023. The high increase in inflation is important for reducing the debt ratio because central banks around the world are raising interest rates in an effort to fight inflation. This results in loans becoming more expensive, which can put pressure on the currencies of various countries. The efforts made by the central bank were to increase interest rates for more than one year with the aim of controlling the rising inflation rate. For example, the US central bank, the Federal Reserve (Fed), raised the fed funds rate to its highest level in twenty-two years, which is within its target range of 5.25%–5.50%. This raised questions over the financial system's use of leverage. In terms of expanding loan distribution, developed country banking is facing quite a different fate than emerging markets. Loan distribution is still above epidemic levels in developing nations, primarily in China, Korea, and Thailand, while industrialized nations are still increasing at slower rates because of persistent inflationary pressures.

Foto: IIF
Perlambatan tajam pertumbuhan kredit perbankan

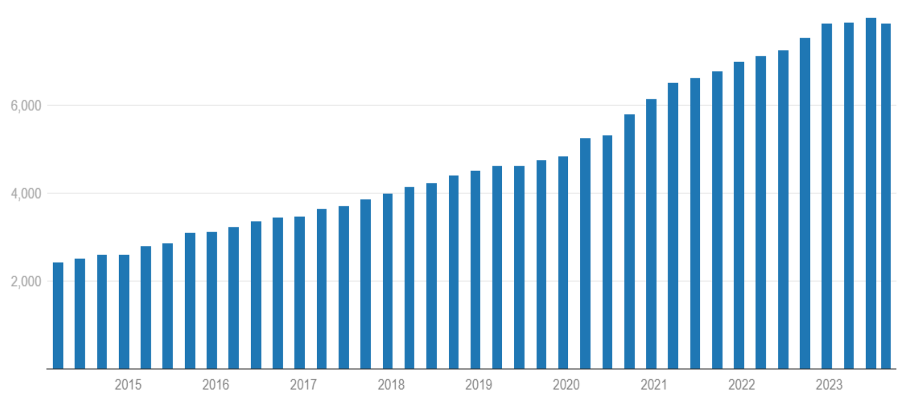
Source : cnbnindonesia.com

Both Indonesia's debt and the global debt level reached all-time highs. According to Bank Indonesia (BI), as of July 2023, Indonesia's foreign debt (ULN) grew by 0.07%, or roughly IDR 6,105.2 trillion (at an exchange rate of US$ 1 = IDR 15,400), from US$ 396.16 billion to US$ 396.44 billion. Of this total, the government's external debt position was valued at US$ 193.2 billion, representing an annual rise of 4.1% (year over year/yoy), which was greater than the 2.8% (yoy) growth seen in the previous month. Among other things, the withdrawal of foreign loans supporting program and project finance had an impact on the growth of external debt. Data from The Institute of International Finance indicates that the household debt ratio in Indonesia is approximately 16.5% of GDP, with 6.3% coming from the financial sector, 37.8% coming from the government sector, and 23.6% coming from the non-government sector as well. finance.



Source : Indonesia's Debt Per GDP Ratio (IMF, 2023)

According to Census and Economic Information Center (CEIC) data, as of semester I/2023, government debt reached US$ 519.4 billion, or the equivalent of IDR 7,990.58 trillion. This represents a rise of more than three times since the start of President Joko Widodo's (Jokowi) administration in 2014. In nominal terms, it may have hit a historical high, but when compared to GDP, it is still under control. The debt ratio was 38.1% as of June 2023, down from 39.1% the previous quarter. The debt to GDP ratio barrier of 60% is defined by State Finance legislation, and the debt ratio number is still below that threshold. Indonesia's present debt level is therefore still very safe.



Source : Nominal Indonesian Debt (CEIC, 2023)

Managerial ownership refers to shares held by shareholders and managers who actively participate in the operation of the company. It is thought that agency conflicts between managers and shareholders can be reduced when managerial ownership is present. Overseeing management initiatives aimed at reducing agency costs is one of debt's responsibilities (Lin et al., 2023). A principal-agent issue arises when the goals of the principals, or shareholders, and the agents, or managers, are not entirely aligned. (Onjewu et al., 2023) Generally speaking, managers may have other personal or professional interests, but shareholders seek to maximize their returns. By giving managers a monetary stake in the company's success, managerial ownership is thought to be one approach to lessen this problem (Chikosi & Mutezo, 2023). Institutional ownership refers to shares held by businesses such as banks, insurance providers, investment firms, and other ownership in the financial sector (Thanatawee, 2023). Typically, institutional investors include shares of firms in their investment portfolios. Due to the huge sums of capital they oversee, the stock prices and corporate governance of the companies they invest in are greatly influenced by the decisions they make it (Amanda et al., 2021).

Some earlier researchers' findings led to contradicting conclusions, but overall, the results of this study were validated by those of other researchers. The results of research by Fajarwati (2023), Ali et al (2022), and Jebran & Chen (2022) stated that managerial ownership has negative effect on debt policy. Meanwhile, the research results by Setiyani et al. (2023) stated that managerial ownership has no effect on debt policy. But, the research result by Kusuma Wardani et al., (2018) state that managerial ownership has positif effect on debt policy. The results of research by J. Ali et al., (2022), (Mariani, 2022), (Gustyana & Hanari, 2021) and Benteng and Moin (2021)stated that institutional ownership has positive effect on debt policy. Meanwhile, the research results by Putri and Dillak (2023) stated that institutional ownership has no effect on debt policy. But, the research results by Hikmah, et al. (2019) stated that institutional ownership has negative effect on debt policy.

The results of other earlier studies left gaps in the field. The novelty in this research is that the author uses managerial and institutional ownership variables because the proportion of share ownership is greater in the manufacturing sector.

2. LITERATURE REVIEW

1. Debt Theory

Debt is a source of funding that comes from outside the company to fulfill the company's operations (Nurohmah, 2023). Businesses may employ outside finance In the event that internal finance is insufficient, the business can swiftly get capital by using debt as an alternate source of funding to support operations (Wahyu & Budianto, 2023). When a business lacks its own money, debt financing is one of the most crucial forms of funding (Sakala & Hapompwe, 2023). When a business lacks its own money, debt financing is one of the most crucial forms of funding (Gajdosikova et al., 2023). This is known as the company's debt policy. Additionally, employing debt allows businesses to explore bigger investment alternatives that could raise their worth (Hussain et al., 2023). However, because the corporation bears a large risk, the usage of debt excessively might lead to major issues (Zhitao & Xiang, 2023).

2. Pecking Order Theory

According to Myers and Majluf (1981) the pecking order theory does not specify an ideal debt amount. This is a result of signal issues and knowledge asymmetry around external funding, which ensures that funding policies adhere to the funding sequence (Lyu et al., 2023). The company will prioritize internal funding rather than external funding. In order to finance corporate capital, businesses might employ debt, internal funds, and eventually share issue, as explained by the pecking order hypothesis. First, the corporation leverages internal funding, according to the pecking order theory. In order to finance corporate capital, businesses might employ debt, internal funds, and eventually share issue, as explained by the pecking order hypothesis. First, the corporation leverages internal funding, according to the pecking order theory (Jansen et al., 2023). Businesses decide to use internal funding due to their high profitability and low debt levels (Aziz, 2023). In the event that the business requires outside finance, it can issue the safest securities first, such as bonds, securities with features akin to options, and then additional shares (Cicchiello et al., 2022). According to this idea, corporations prefer to employ internal funding over debt to finance investment because it is based on the information asymmetry held by insiders and outsiders. Corporations prefer to employ internal funding over debt to finance investment because it is based on the information asymmetry held by insiders and outsiders (Wei et al., 2024).

3. Agency Theory

According to Jensen and Mackling (1976) state agency theory, conflicts of interest between managers and stockholders are permitted because ownership and oversight of the business are kept separate. One of the company's objectives, according to financial theory, is to increase shareholder wealth by issuing more shares. With this agency relationship between the shareholder (principal) and the manager (agent) will have the potential to create agency conflicts. Agency conflicts arise because the two parties have different interests. An agency relationship is a written contract or agreement between one or more shareholders (the principal) that asks other individuals to act as managers or company managers and perform certain tasks on behalf of the principal, including giving the agent certain decision-making authority. Jensen and Meckling (1976) define an agency relationship as a contract or agreement between one or more shareholders (principal) by asking other people as managers or company managers to carry out some work for the interests of the principal which includes transferring some of the authority to the agent to make decisions. In economics and finance research, the phrase agency relationship researched by Jensen and Meckling (1976) is frequently used to examine and assess disputes that arise between the management and the company owner (principal) (agent).

4. Managerial Ownership

Managerial ownership is describes the circumstance in which a company's executives or managers possess a sizeable portion of its equity (Rahmawati & Garad, 2023). It is believed that the presence of managerial ownership can lessen agency conflicts that arise between managers and shareholders. One of debt's functions is to supervise management actions meant to lower agency costs (Rahmawati & Garad, 2023). Agency theory suggests that a greater management ownership can lessen agency conflict. Additionally, as managerial ownership rises, managers and shareholders become more similar, which lessens agency conflicts (Alves, 2023). Most businesses take on more debt in an effort to boost management performance as a means of financing debt reduction and lower agency charges. The majority of businesses decide to use debt to reduce agency fees, give management more power over the company, and enhance their voting rights (Koutoupis et al., 2023). Debt will decrease as a result of substantial managerial ownership in the business. When managers control a large portion of a debt-ridden company, they are typically more at risk than the owners. High debt levels cause managers to lose their jobs and put their organizations at risk of going bankrupt (Arif et al., 2023).

5. Institutional Ownership

The ownership of shares by organizations, such as banks, insurance companies, investment firms, and other ownership in the financial industry, is referred to as institutional ownership (Kusnanto et al., 2023). The presence of institutional ownership can enhance oversight to a higher standard. One of the ownership arrangements of the company is institutional ownership, or simply institutional ownership (Ardillah & Halim, 2022). Institutional ownership and debt are related in that shareholders oversee management of the firm and set policies that are implemented by managers; hence, a high percentage of institutional ownership may have an impact on the debt policy of the organization (Hegazy & Stafford, 2021).

6. The Effect of Managerial Ownership on Debt Policy

High managerial ownership places a considerable deal of responsibility on managers for the assets of the company, necessitating good management and shareholder collaboration. Debt serves as an indicator of managerial activity. There are other ways to lower agency costs besides managerial ownership and debt. Companies are becoming more frugal with their use of debt due to the high level of managerial ownership. Consequently, a large management ownership ratio can lower the debt policy. The research results of Fajarwati (2023), Ali et al (2022), and Jebran & Chen (2022) state that managerial ownership has a negative effect on debt policy. Conflicts between managers and shareholders can be minimized by the presence of managerial ownership. Managerial ownership means that managers bear a large portion of the company's responsibilities, necessitating excellent management-shareholder cooperation. Debt serves a purpose in management initiatives meant to save agency expenditures. In order to increase corporate supervision, lower agency expenses, and enhance voting rights and performance, the majority of managers want higher levels of debt. Managers that opt to take over the contrary by using greater debt than business capital.

Hypothesis 1 = Managerial ownership has a negative effect on debt policy.

7. The Effect of Institutional Ownership on Debt Policy

Corporate governance is impacted by institutional investors' presence, which plays a significant role in the financial markets. This is due to institutional ownership's strong capacity to gather and comprehend data regarding business performance in order to lower agency expenses (Ellimäki et al., 2023). It is mentioned that institutional investors may serve as a source of debt in a few additional instances. They can lower agency costs and assist in making strategic corporate decisions (Ali et al., 2023). The capacity and incentives of institutional shareholders can be used to lessen managerial opportunism. This condition may result in higher monitoring costs since each investment in the portfolio would be directly monitored. Institutional investors will choose for debt monitoring as opposed to in-person observation J. Ali et al., (2022), Mariani (2021), Gustyana & Hanari (2022) and Benteng & Moin (2021) assert that the influence of institutional ownership on debt policy is favorable. It is mentioned that institutional investors may serve as a source of debt in a few additional instances. They can lower agency expenses and assist in the company's strategic decision-making.

Hyphotesis 2 = Institutional ownership has a positive effect on debt policy.

3. METHOD RESEARCH

Population and Sample Research

This population research in manufacturing sector listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022 make up the study's population. This item was selected in order to ascertain how the capital structure has evolved over the last five years because manufacturing companies' capital structures are comparable to those of investment companies. Purposive sampling is the methodology employed for sampling. Some of the sample criteria or considerations used in the study are as follows: companies that fall under the manufacturing sector; companies that release financial reports for the years 2018 to 2022; excludes companies that underwent an initial public offering (IPO) and filed for bankruptcy between 2018 and 2022; and companies that have been in business for at least five years, so that a sample was obtained after being chosen using a sampling technique of 28 companies.

Types of Data and Data Sources

The company's annual financial statements for the years 2018 through 2022 were the source of the data for the study. This research uses partial linear square. Via the company's own website or the website www.idx.co.id, we can access this data from the Indonesia Stock Exchange (IDX).

Operational Definition and Research Variables

Debt Policy

The debt policy is an act of company management in order to fund the company's operations by using capital that comes from debt. Debt is proxied by Debt to Equity Ratio (DER). Debt to Equity Ratio (DER), which is the ratio of total debt to equity. This indicates the amount of total debt used to fund the company's capital (Afiezan et al., 2020).

$$Debt\ (DER) = \frac{Total\ Debt}{0wners\ Equity}$$

Managerial Ownership

Managerial ownership is describes the circumstance in which a company's executives or managers possess a sizeable portion of its equity (Rahmawati & Garad, 2023). The percentage of the manager's shareholdings to the total number of outstanding shares serves as a stand-in for managerial ownership (Ningrum, 2023).

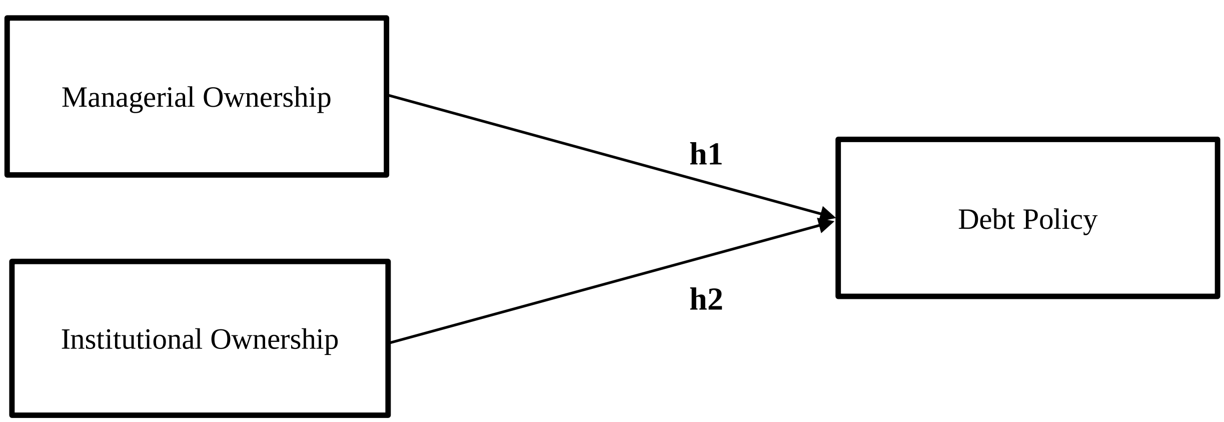
$$(MAN) = \frac{the\ number\ of\ shares\ owned\ by\ management}{number\ of\ shares\ outstand\ (n)}$$

Institutional Ownership

Institutional ownership refers to the ownership of shares by organizations or institutions, including banks, insurance companies, investment firms, and other organizations in the financial industry. The ratio of the number of shares held by the institution to the total number of outstanding shares serves as a stand-in for institutional ownership (Yahaya et al., 2023).

$$(INST) = \frac{the\ number\ of\ shares\ owned\ by\ the\ institution}{number\ of\ sares\ outstand(n)}$$

e. Conceptual Framework



4. DISCUSSION

Parametric techniques which aim to test the significance level of parameters are not needed because Partial Least Squares (PLS) assumes that there is a certain distribution in estimating a parameter. The measurement model (outer model) is evaluated using the discriminant validity of the indicators (Chin, 1995).

a. Discriminat Validity

Discriminant validity will occur if there are two different instruments measuring two constructs that are predicted to have no correlation, producing scores that have no correlation. From the results of data processing, the results of testing the discriminant validity of this research can be seen as follows:

Table 1. Discriminant Validity

Fornell-Larcker Criteri... | Cross Loadings | Heterotrait-Monot

	X1	X2	Y
X1	0.626		
X2	0.502	0.872	
Y	-0.461	-0.644	0.781

Based on the data above, it is found that an item is said to be valid if the discriminant is based on the cross loadings value. In this research, there is only one item used, namely debt policy with a correlation value of 0.781.

b. Composite Reliability

Reliability testing is used to measure a construct to evaluate the output produced by PLS from the composite reliability table. The results of this research data processing for composite reliability values are presented in the following table:

Table 2. Construct Realiability and Validity

	Cronbach's Al...	rho_A	Composite Rel...	Average Varian...
X1	0.723	0.838	0.639	0.391
X2	0.914	0.963	0.939	0.760
Y	0.837	0.865	0.885	0.610

Based on the table above, it is obtained that the institutional ownership (X2) and debt policy (Y) variables in this study have Cronbach alpha and composite reliability values above 0.70. This means that there is very high consistency and stability of the instruments used. In other words, the reliability of the instrument has been met. Meanwhile, the managerial ownership variable (X1) has inconsistent results and the stability of the instrument used is very low.

Structural Model Testing (Inner Model)

In testing the structural model, it is used to determine the relationship between constructs. The R-Square value evaluates the structural model for the dependent construct, the T-test and the significance of the structural path parameter coefficients.

Table 3. R-Square Test

	R Square	R Square Adjus...
Y	0.440	0.395

Based on the table above, it can be seen that the R-Square value for the Debt to Equity Ratio variable is 0.440. The R Square Adjusted, accounting for the number of predictors, is slightly lower at 44.0%. It means that, the regression model seems reasonably good ar explaining and predicting Debt Policy with Debt to Equity Ratio as a measurement, with a substantial portion of its variability accounted for by the included factors.

Inner Weight Assessment

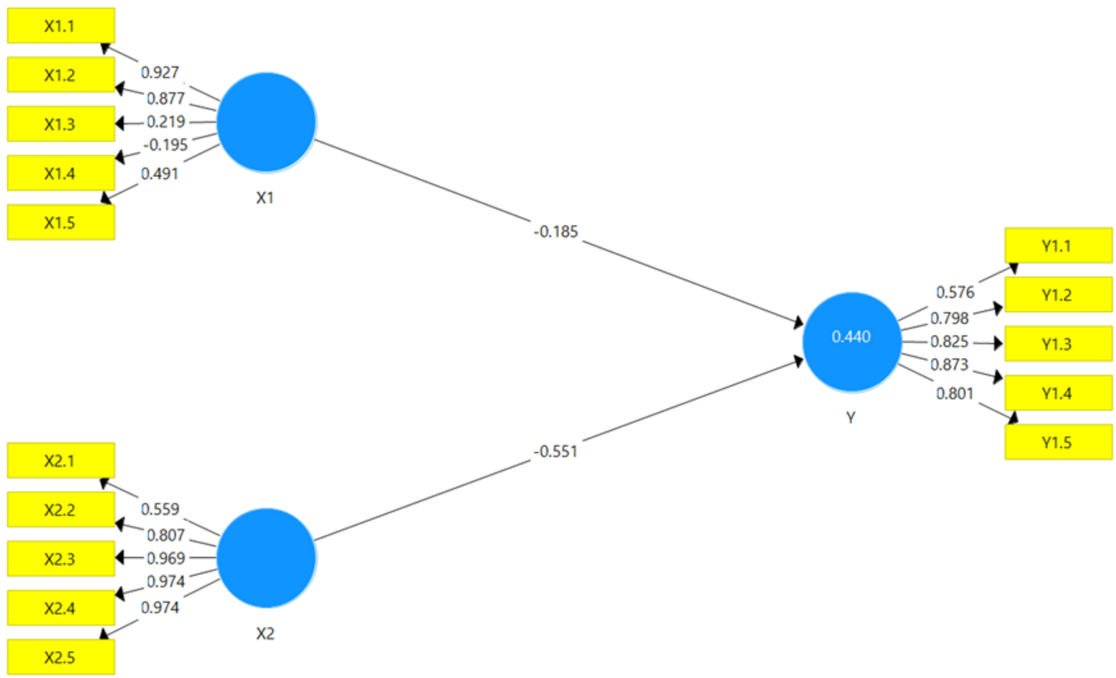
To see the relationship between latent constructs by paying attention to the results of the estimated path parameter coefficients and the level of significance by assessing the inner weight. Inner weight can show the results of hypothesis testing. After testing the hypothesis, you can see the magnitude of the t-statistic value and p-value. If the p-value <0.05, then the hypothesis is accepted. The inner weight results obtained by the t-statistic estimation results are presented in the following table.

Table 4. Inner Weight Assessment

Mean, STDEV, T-Values, P-Val... | Confidence Intervals | Confidence Intervals Bias Co... | Samples

	Original Sampl...	Sample Mean (...	Standard Devia...	T Statistics (|O/...	P Values
X1 -> Y	-0.185	-0.182	0.182	1.012	0.312
X2 -> Y	-0.551	-0.566	0.170	3.250	0.001

Based on the table above, it can be seen that the managerial ownership variable (X1) is not proven to have a significant effect on the debt policy variable. This can be seen from the p-value > 0.05. Meanwhile, the institutional ownership variable (X2) is proven to have an influence on debt policy. This can be seen from the p-value <0.05. The image of the research model after boodstrapping is as follows.



Picture 1. Boodstreeping After Model

Result

Based on the research results described above, each hypothesis can be discussed as follows:

1. The Effect of Managerial Ownership on Debt Policy

Based on the data processing results in table 3, it shows that managerial ownership has no influence on debt policy. This is proven by the p-value of 0.312. This means that the value is more than 0.05 and the estimated value is -0.185. Therefore, it is said that managerial ownership is not proven to have an effect on debt policy because the magnitude of the direct influence between managerial ownership and debt policy is -0.185.

From the research results, it means that high managerial ownership shows that managers cannot give big responsibility for company assets. Acting managers cannot manage management well and there is no collaboration between shareholders. And companies tend to be wasteful in using company funds in the manufacturing sector. This is in accordance with research by Setiyani, et al (2023) which states that managerial ownership has no effect on debt policy. A change in debt ownership in a company does not have an impact on debt policy. In addition, the shares owned by managers are very low compared to other shares, causing managers to lose their authority to make decisions in accordance with the objectives and use of company debt.

2. The Effect of Institutional Ownership on Debt Policy

Based on the results of data processing in table 3, it shows that institutional ownership has a positive influence on debt policy. This is proven by the p-value of 0.001. This means that the value is less than 0.05 and the estimated value is -0.551. Therefore, managerial ownership is said to have proven to have a positive effect on debt policy because the direct influence of institutional ownership on debt policy is -0.551.

Corporate governance is influenced by the presence of institutional investors who play an important role in financial markets. This is due to the strong capacity of institutional ownership in collecting and understanding data regarding business performance in order to reduce agency costs (Ellimäki et al., 2023). It stated that institutional investors could be a source of debt in some additional cases. They can reduce agency costs and assist in corporate strategic decision making (Ali et al., 2023). The capacity and incentives of institutional shareholders can be used to reduce managerial opportunism. This condition can result in higher monitoring costs because every investment in the portfolio will be monitored directly. Institutional investors will choose debt monitoring over direct observation. J. Ali et al., (2022), Mariani (2021), Gustyana & Hanari (2022) and Benteng & Moin (2021) emphasize that the influence of institutional ownership on debt policy is beneficial.

It stated that institutional investors could be a source of debt in some additional cases. They can lower agency costs and help a company's strategic decision making.

5. CONCLUSION

Based on the research results, researchers can draw conclusions that can be obtained from this research, namely:

1. Managerial ownership has no effect on debt policy because high managerial ownership shows that managers cannot give big responsibility for company assets. Acting managers cannot manage management well and there is no collaboration between shareholders. And companies tend to be wasteful in using company funds in the manufacturing sector. A change in debt ownership in a company does not have an impact on debt policy. In addition, the shares owned by managers are very low compared to other shares, causing managers to lose their authority to make decisions in accordance with the objectives and use of company debt.
2. Institutional ownership has a positive effect on debt policy because discuss about corporate governance is influenced by the presence of institutional investors who play an important role in financial markets. This is due to the strong capacity of institutional ownership in collecting and understanding data regarding business performance in order to reduce agency costs. It stated that institutional investors could be a source of debt in some additional cases. They can reduce agency costs and assist in corporate strategic decision making. The capacity and incentives of institutional shareholders can be used to reduce managerial opportunism. This condition can result in higher monitoring costs because every investment in the portfolio will be monitored directly. Institutional investors will choose debt monitoring over direct observation. Institutional investors could be a source of debt in some additional cases. They can lower agency costs and help a company's strategic decision making.

6. SUGESSTION

In this study, there are research limitations and suggestions for further research are needed. The following are the limitations and suggestions of this research:

1. For investors, before investing they need to carefully choose the right company to invest their capital. Investors really need to pay attention to the factors that influence debt policy, especially investors at manager or director level who are expected to increase their share ownership in the manufacturing sector.

2. It is hoped that further research can add other variables such as foreign ownership, family ownership, domestic ownership and concentrated ownership.

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