

**DEBT POLICY, INSTITUTIONAL OWNERSHIP, VALUE OF THE FIRM, AND ASSETS UTILIZATION OF  
MANUFACTURING COMPANIES IN INDONESIA**

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**ABSTRACT**

Separation of functions between owners and management creates agency conflicts where the manager's decision is not necessarily in line with the owner. The manager no longer prioritizes the interests of the owner over his personal interests. Management as an insider effectively controls the company and knows more information than the owner as an outsider. In Asian countries, there is a tendency for majority ownership to take control in management. So that the agency conflict that occurs is no longer pure between managers and capital owners, but between majority and minority shareholders. This management system allows for expropriation by majority shareholders against minorities. The control mechanism is needed to suppress agency conflicts that exist within the company so that shareholders remain prioritized over the manager's personal interests. This study uses a sample of 123 manufacturing companies listed on the Indonesia Stock Exchange in 2013-2016. The results of the study show that debt has a significant negative effect on the utilization of assets and company value. While institutional ownership has a significant positive effect on asset utilization and company value.

**Keywords:** agency conflict, debt, institutional ownership, asset utilization, Tobin's Q

**ABSTRAK**

*Pemisahan fungsi antara pemilik dan manajemen menciptakan konflik agensi di mana keputusan manajer tidak harus sejalan dengan pemiliknya. Manajer tidak lagi memprioritaskan kepentingan pemilik atas kepentingan pribadinya. Manajemen sebagai orang dalam secara efektif mengendalikan perusahaan dan mengetahui lebih banyak informasi dari pada pemilik sebagai orang luar. Di negara-negara Asia, ada kecenderungan kepemilikan mayoritas mengambil kendali dalam manajemen. Sehingga konflik agensi yang terjadi tidak lagi murni antara pengelola dan pemilik modal, tetapi antara pemegang saham mayoritas dan minoritas. Sistem manajemen ini memungkinkan pengambilalihan oleh pemegang saham mayoritas terhadap minoritas. Mekanisme kontrol diperlukan untuk menekan konflik keagenan yang ada di dalam perusahaan sehingga pemegang saham tetap diprioritaskan atas kepentingan pribadi manajer. Penelitian ini menggunakan sampel sebanyak 123 perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia pada 2013-2016. Hasil penelitian menunjukkan bahwa utang memiliki pengaruh negatif yang signifikan terhadap pemanfaatan aset dan nilai perusahaan. Sedangkan kepemilikan institusional memiliki pengaruh positif yang signifikan terhadap pemanfaatan aset dan nilai perusahaan.*

**Kata kunci:** konflik agensi, utang, kepemilikan institusional, pemanfaatan aset, Tobin's Q

## **INTRODUCTION**

The control structure and management of the company changes along with the development of the company. At the beginning of the establishment, this was done by shareholders, so that every decision taken was aimed at the development of the company and the interests of the owners of the capital itself. Along with the development of the company, the complexity of the problems faced, and opportunities to develop other businesses, the structure of control and management of the company has changed. The owner of capital hands over management obligations and business decisions to a group of people (management). In the world of modern business, management can make decisions according to its considerations more independently. Although the owner of capital gives the right to make decisions and manage the company to management, often the decisions made by management are not in line with the owner.

In accordance with its function, all actions taken by management should aim for the prosperity of the owner of the company. But management does not always do that. The larger the company, the greater the company's resources managed by management, so the greater the opportunity for management to use these resources for their own interests. In addition, management always has more information than the owner (asymmetry information) so that management can hide some information, and act for personal gain. Management is referred to as an insider, that is, a party that has the power to effectively control the company, as opposed to shareholders or outsiders. Agency conflict between insider and outsider is not always between management and capital owners. In countries in Asia, majority capital owners often take part in managerial so that the conflict that occurs is a conflict of interest between majority and minority capital owners.

Johnson et al. (2000) use tunneling instances to refer to expropriation actions in the form of asset transfers and profits made by company controllers. Atasanov et al., (2007) distinguish tunneling according to tunneling objects, namely cash flow tunneling and asset tunneling. Cash flow tunneling is a moral hazard action carried out by using the company's free cash flow for overinvestment investments. The company will grow bigger than it should but not produce the right profit. According to Suparno's research (2013), shareholders in Indonesia tend not to want the distribution of company profits in the form of dividends. Therefore, vulnerable excess cash flow is used by agents for investment or things that are not useful. Another tunneling action is asset tunneling, which is the release of company assets to other parties affiliated with an agent (Atasanov et al., 2007)

Jensen & Meckling (1976) introduced agency theory that provides a means for management to work optimally for the benefit of company owners. Agency conflict (also called conflict of interest) between owners (principals) and management (agents) results in losses for the owner. Costs incurred due to agency conflict are called agency costs. These costs are incurred by the owner so that the agent prioritizes the interests of the principal above his own interests (Jensen and Meckling, 1976). Agency costs can be zero only when the company is managed 100% by the owners of their own capital. Agency costs can be measured by proxying the ratio of utilization of company assets (Ang et al. 2000; Chen & Austin, 2007; Wang, 2010; Suleman et al., 2014). Optimal performance by management will be reflected in the higher asset utilization ratio. Maximum asset utilization can increase the value of the company so as to provide benefits to the owners of capital as a whole. Watts and Zimmerman (1983) reveal that monitoring can reduce agency costs arising from information that is asymmetry. The monitoring function is carried out in an agency cost control mechanism in the form of operational financing using debt and institutional ownership. It is expected that with the existence of a control mechanism, management will be more careful in making decisions.

Debt is considered an important mechanism for controlling management actions and reducing agency conflict (Jensen & Meckling, 1976; Kim & Sorensen, 1986; Friend & Lang, 1988; Stulz, 1990; Bathala et al., 1994). Companies that have debt are obliged to pay interest and principal periodically, thus preventing misuse of company cash flows and incentives to carry out activities that are not optimal. Friend and Lang (1988) revealed that in the presence of debt, there will be outsiders who oversee management performance. Grossman and Hart (1982) also argue that the existence of debt, management will try to increase profits and effectiveness to reduce the probability of bankruptcy that has an impact on the reputation of the manager himself.

Bathala et al. (1994) suggest that institutional ownership is a substitute for managerial ownership and debt in controlling agency conflict. In addition, it is stated that institutional ownership is called a very effective monitoring tool. These institutions are insurance companies, banks, or investment companies. Therefore, institutional investors will also oversee the performance of the companies invested. Ownership of the majority of financial institutions has stronger management controls, so they can reduce agency costs (Shleifer & Vishny, 1986). Coffee (1991) also states that institutional ownership can force company managers to act in the interests of company owners. Something similar was revealed by Crutchley et al. (1999) which includes additional variables such as institutional ownership as a simultaneous variable, finding empirical evidence of the substitution effect between insider and institutional ownership in the agency conflict monitoring mechanism. In addition to

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impacting on asset utilization, several advantages of institutional ownership structures on corporate value are the professionalism of institutional investors in information analysis which has an impact on the reliability of information and strong motivation to carry out tighter supervision of company activities.

Modigliani & Miller (1963) suggested the benefits of funding through debt to firm value through tax shields. Companies that have debt, both short-term and long-term debt, pay less tax than companies that have no debt. The incoming funds can be used to capture existing growth opportunities. On the negative side, debt is followed by an obligation to pay the loan principal and loan interest. Managers need to regulate leverage so that the benefits of debt are greater than the debt burden.

The effect of the control mechanism on reducing agency costs and increasing company value and the results of different studies spur the writer to examine the effect of debt and institutional ownership on firm value with asset utilization as an intervening variable.

## **LITERATURE REVIEW**

### **Agency Theory**

The main principle of agency theory is the existence of a working relationship between the party giving authority (principal), namely the owner or shareholder with the party that receives authority (agent), namely the manager, in the form of a cooperation contract. Agency problems occur because of the separation of the functions of ownership and management functions of companies that cause conflicts or differences of opinion and interests (Jensen and Meckling, 1976).

According to Jensen and Meckling (1976) agency relations is a relationship where the owner of the company (principal) entrusts the management of the company by another person, namely manager (agent) in accordance with the interests of the owner (delegate) by delegating some decision-making authority to the manager (agent). Managers in running the company have an obligation to manage the company as mandated by the owner (principal), namely increasing the prosperity of the principal through increasing the value of the company, in return the manager (agent) will get a salary, bonus or other compensation. Management as an insider, the company manager has more information about the company, knows more about internal information, and knows the prospects of the company in the future compared to the owner or shareholder (outsider), therefore the manager is obliged to provide information or signals about the conditions company to owner. But the information submitted is sometimes not in accordance with the actual conditions of the

company. This condition is known as asymmetrical information or information asymmetry. In fact, in carrying out their obligations, the manager (agent) has other objectives, namely, prioritizing their own interests, obtaining maximum profits to improve their welfare, so that in the end it creates agency conflicts, namely conflicts of interest between management (agents) and owners or shareholders (principal) (Haruman, 2007).

### **Debt Policy**

Debt is one of the external financing sources used by companies to finance their funding needs. Debt policy is a policy taken by companies to finance through debt. In making decisions on the use of debt must consider the magnitude of the burden arising from debt in the form of interest that will lead to increasing financial leverage and the increasingly uncertain rate of return for ordinary shareholders.

Debt is included in the control mechanism that can be done because debt will reduce excess cash flow in the company so that it will reduce the possibility of waste management (Jensen, 1986). Management can use excess cash flow to pay dividends or buy back shares in circulation, but on the other hand management can also use them to invest in less profitable projects or even use them in vain. Friend and Lang (1988) revealed that in the presence of debt, there will be outsiders who oversee management performance. Grossman and Hart (1982) also argue that the existence of debt, management will try to increase profits and effectiveness to reduce the probability of bankruptcy that has an impact on the reputation of the manager himself. The threat of bankruptcy is proven to be effectively a motivation for managers to be able to manage their companies more efficiently (Jensen, 1986). In addition, debt can also reflect the condition of the company regarding the status and financial condition of the company in fulfilling its obligations.

### **Institutional Ownership**

Institutional ownership is the ownership of shares by other parties in the form of institutions such as insurance companies, banks, investment companies, and ownership of other institutions. Jensen and Meckling (1976) state that institutional ownership has a very important role in minimizing agency conflicts that occur between managers and shareholders. Shleifer and Vishny (1986) and who revealed the majority ownership of financial institutions have stronger management controls, so as to reduce agency costs. The existence of institutional investors is considered capable of being an effective monitoring mechanism in every decision taken by managers. This is because institutional investors are involved in strategic retrieval, so it is not easy to believe in earnings manipulation. In addition, institutional ownership can be a substitute for managerial ownership in controlling agency conflict (Chen and Steiner, 1999).

### **The Value of the Company**

Company value is defined as market value because the value of the company can provide maximum shareholder prosperity if the company's stock price increases. Various policies taken by management in an effort to increase the value of the company through increasing the prosperity of owners and shareholders are reflected in stock prices (Brigham &Gapenski, 2002 in Suryantini, 2014). The value of the company will establish investor perceptions in making investment decisions made.

The value of the company can also show the value of assets owned by the company such as securities. Stock is one of the valuable assets issued by the company (Martono&Agus, 2003). The value of a go-public company in addition to showing the value of all assets, is also reflected in the market value or price of its shares, so that the higher the stock price reflects the high value of the company (Afzal, 2012).

According to Sujoko and Soebiantoro (2007) company value is the investor's perception of the level of success of the company that is closely related to its stock price High stock prices make the value of the company high, and increase market confidence not only in the company's current performance future. The stock price used generally refers to the closing price (closing price), and is the price that occurs when shares are traded in the market (Fakhruddin&Hadianto, 2001 in Hermuningsih, 2013).

## **HYPOTHESIS**

### **Relationship between Debt Policy and Asset Utilization**

Debt can be an effective control mechanism where creditors as outsiders participate in overseeing the performance of managers (Friend & Lang, 1988). Debt can also be a motivation for managers to reduce the probability of bankruptcy which can have a negative impact on the manager's reputation. So that managers will be motivated to work by utilizing company assets more optimally and reducing asset tunneling actions. According to Herdinata et al. (2014), low debt is less effective in reducing agency conflict due to lack of monitoring by creditors for companies with low debt, while high debt will have an impact on optimal supervision by creditors on the utilization of company assets.

In a study in Pakistan by Sarwar and Khan (2014) using the ratio of asset utilization as a proxy to measure agency cost found a relationship between debt (debt ratio) and asset utilization.

Debt can increase the risk of bankruptcy and a reduction in free cash flow so that it forces agents to increase the efficiency of asset management so that the company is able to pay the loan principal and debt interest.

**H1: Debt policy has a positive effect on asset utilization**

**Relationship between institutional ownership and asset utilization.**

Institutional ownership can be a substitution of managerial ownership to overcome agency conflict (Jensen et al.,1992). Monitoring carried out by institutional ownership forces managers to act more effectively and increase asset utilization. Research in Pakistan conducted by Sajid et al. (2012) show a decrease in agency cost which is marked by an increase in asset utilization when institutional ownership increases. Institutional ownership monitors the performance of the company and the decisions made by managers are in line with the wishes of shareholders.

**H2: Institutional ownership has a positive effect on asset utilization**

**Relationship between debt policy and company value.**

Investors can assess the company's performance through the company's ability to pay its debts so that debt payments made by the company can increase investors' assessment of the company. Ross (1977) in Chowdhury and Chowdhury (2010) revealed that company value will increase along with debt, because debt can increase market perception. Research by Irvaniawati (2014) revealed that debt has a positive effect on firm value which is characterized by an increase in earnings per share.

**H3: Debt policy has a positive effect on firm value**

**Relationship between institutional ownership and company value.**

Institutions that are included in institutional ownership are insurance companies, banks, investment companies, and ownership of other institutions where their main income is derived from the planting of funds owned to be reinvested in other companies to generate profits. Therefore, institutional owners will pay attention to the value of the company because the company's earnings will greatly affect their wealth. Institutional ownership can increase the value of the company through the support of analysis of information and also supervision carried out by being able to motivate managers to improve their performance. Nesbitt (1994), and Guercio and Hawkins (1999) in Cornett et al. (2007) found a positive relationship between institutional ownership and company value.

**H4: Institutional ownership has a positive effect on firm value**

**Relationship between asset utilization and company value.**

Asset utilization can be a proxy for measuring agency conflict in a company. Tunneling actions carried out by agents in the form of asset tunneling will reduce the utilization of company assets. Herdinata et al. (2014) who conducted a research study using simultaneous equations showed that asset utilization had a positive and significant effect on company performance. This is in line with the results of Dada and Ghazali (2016) who conducted a study of companies in Nigeria, Pouraghajan (2013) against 140 Tehran Stock Exchange companies, and Layyinaturrobaniyah et al. (2014) towards family and non-family companies in Indonesia.

### H5: Utilization of assets has a positive effect on firm value

#### Research Hypothesis

Based on the development of the hypothesis described earlier, the hypothesis in this study are as follows:

1. Debt policy has a positive effect on asset utilization
2. Institutional ownership has a positive effect on asset utilization
3. Debt policy has a positive effect on firm value
4. Institutional ownership has a positive effect on firm value
5. Utilization of assets has a positive effect on company value

#### Research Model

The research model used to test hypotheses is as follows:

$$UA = a + b1H + b2KI$$

$$NP = a + b3UA + b4H + b5KI$$

$$NP = a + b6H + b7KI$$

Information:

a = Constant

b1 = Debt regression coefficient on Asset Utilization

b2 = Regression coefficient of Institutional Ownership of Asset Utilization

b3 = Asset Utilization regression coefficient on Company Value

b4 = Debt regression coefficient on firm value

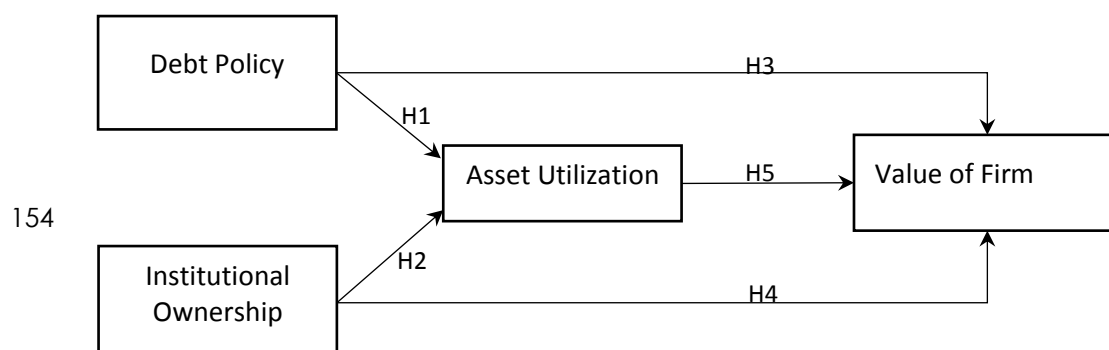
b5 = Regression coefficient of Institutional Ownership of Firm Value

b6 = Regression coefficient of debt to firm value (direct)

b7 = Regression coefficient of Institutional Ownership of Firm Value (direct)

#### Theoretical Framework

Based on previous research, theories, and the development of the hypothesis above, the theoretical framework used in this study is as follows:





**Figure 1. Research Model**

**RESEARCH METHOD**

This research is a research that is used to see the effect of agency conflict control mechanism that is measured by using asset utilization proxy to see its effect on firm value. This research is an ex post facto research (after the fact), where this research was carried out after an event occurred. It is also referred to as a retrospective study because this research is a re-research of an event or event and then traces back to find out the factors that can cause the event.

The research method used is quantitative research methods where the research data uses secondary data manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2013-2016. The company will then be selected using criteria (purposive sampling) to obtain companies that are in accordance with this study. This study uses the principle of causality, namely research conducted to prove the variables studied support the alleged cause and effect arranged in accordance with theoretical concepts. Thus the purpose of the study to determine the effect of agency control mechanisms through debt and institutional ownership on firm value through asset utilization as an intervening variable in public companies listed on the Indonesia Stock Exchange (IDX) in 2013-2016 can be achieved.

**Technical Analysis**

The Path Analysis technique developed by Sewal Wright in 1934, is a development of correlation which is broken down into several interpretations of the consequences it causes. Wright developed Path Analysis to make a hypothesis study of causal relationships using correlation. This technique is also known as the cause model. Ghozali (2008) states that path analysis is a further development of multiple regression analysis and bivariate. "Path analysis is a technique for analyzing causal relationships that occur in multiple regression if the independent variables affect dependent variables not only directly but also indirectly," (Robert D. Retherford, 1993). Therefore path analysis allows the testing of regression equations involving several exogenous / free and endogenous / bound variables so as to enable testing of intervening variables.

**RESULT AND DISCUSSION**

From the results of the above research, it can be concluded that asset utilization as an intervening variable cannot mediate debt policy and institutional ownership on firm value. Thus asset utilization as a proxy for measuring agency conflict is not proven.

**Table 1. Coefficient and Regression Significance**

Independent Variables	Dependent Variable		
	I. Asset utilization	II. Value of Firm	III. Value of Firm
Debt Policy	-0.028492**	-0.031089	-0.075513**
Institutional Ownership	0.391145**	0.672175*	1.282028**
Asset utilization		1.559147**	

Debt policy has a negative effect on asset utilization, which shows an increase in debt has an effect on decreasing asset utilization. High debt causes over-investment in assets, resulting in iddle capacity. In contrast, institutional ownership has a positive effect on asset utilization so that increased institutional ownership can increase asset utilization. Supervision of institutional investors causes managers to make effective use of their assets. Debt has a negative effect on company value, which means that low debt can increase the value of the company, whereas high debt can reduce the value of the company. Investors assess high debt can lead to bankruptcy risk, thus providing a negative perception of companies that have a high debt ratio. In contrast, high institutional ownership has a positive effect on firm value, where investors assess the company owned by the majority institutional investors will provide more optimal supervision of managers by institutional investors. High asset utilization has a positive effect on company value because companies with high asset utilization are expected to have high sales so that the profits obtained are also high.

**Table 2. Statistical Description among variables**

Variable	Denomiatio n	N	Average	Standard Deviation	Min	Max
Debt Policy	times	123	1.28341	2.026223	-1.94717	18.65217
Institutional Ownership	times	123	0.712436	0.247315	0	0.9999
Asset Utilization	times	123	1.122072	0.615492	0.002003	3.810639
Value of Firm	times	123	1.85832	2.416531	0.056411	18.64036

## **CONCLUSION**

Based on the results of the analysis and discussion outlined in the previous chapters, then some conclusions can be presented as follows: Debt policy has a significant negative effect on asset utilization. This shows that the increase in debt will cause a decline in the utilization ratio of the company's assets. Institutional ownership has a positive effect on asset utilization. Increased institutional ownership will have the effect of increasing asset utilization. Because institutional ownership can provide oversight of management so that it can reduce agency conflict.

Debt policy has a significant negative effect on firm value. This means that the value of the company will decrease if the debt increases, and vice versa. Increasing the amount of debt can increase the potential for bankruptcy. Institutional ownership has a significant positive effect on firm value. Increased institutional ownership will cause an increase in the value of the company. Asset utilization has a significant positive effect on the company. Increasing asset utilization will have an impact on increasing the value of the company because it increases sales potential which is expected to increase sales profits. Asset utilization cannot mediate debt and institutional ownership of company value. The direct influence of debt and institutional ownership on firm value is greater than indirect influence through asset utilization. So that it can be concluded that asset utilization cannot be a proxy between debt and institutional ownership of agency problems.

## **Recommendation for Further Research**

Based on the results of these findings, the researcher recommends several suggestions that need to be considered for the development of further research on agency conflict in Indonesia, as follows:

1. Further research is expected to be able to do further sorting based on the reality that is common in Indonesia, namely the existence of relations, such as kinship relations, between management and institutional and individual investors.
2. In this study the asset utilization proxy to see the effect of debt and institutional ownership in suppressing agency conflict cannot be proven. In further research, it can use or add another control mechanism such as managerial ownership that moderates debt to asset utilization by reason of the large majority of ownership participating in the company's managerial.
3. For potential investors, the findings of this study can be considered before investing in a manufacturing company listed on the IDX.
4. For companies, this research can be an input related to agency conflict and its effect on company value, so that it can improve the performance and value of the company, especially for manufacturing companies in Indonesia.

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