The Effect of Institutional Ownership, Managerial Ownership, and Firm Age on Capital Structure of Consumer Goods Companies listed on Indonesia Stock Exchange

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ABSTRACT: This study aims to determine the effect of institutional ownership, managerial ownership, and firm age on capital structure measured by the debt to equity ratio (DER) of consumer goods companies listed on Indonesia Stock Exchange (IDX) period 2012-2018. The sampling technique used is the census sampling method with total sample 36 companies. Data analysis method is done by multiple linear regression analysis. The results showed that institutional ownership and managerial ownership had a significant negative effect on capital structure measured with debt to equity ratio (DER). The firm age has a significant positive effect on capital structure as measured by the debt to equity ratio (DER). This shows that the higher the institutional ownership and managerial ownership, the lower the debt to the company. Opposite with the firm age that is going higher, the debt of the company will also be higher.

KEYWORDS: *capital structure*, *institutional ownership*, *managerial ownership*, *firm age*

I.   INTRODUCTION

One of the basic decisions of financial management is the capital structure decision. Failure to determine the composition of the capital structure has the potential to bring the company into financial difficulties; as a result, it can cause bankruptcy (Wiagustini*et al.*, 2017). Corporate funding decisions or capital structure policy is a fairly complicated process, in this process manager consider and analyse various sources of funds for the company, as well as the mixture of these sources of funds, so that optimal and able fund other decisions, the mix of funds (leverage ratio) affects cost and availability of capital and thus, corporate investment decisions. The problem of the combination of sources of funds makes funding decisions become quite complex, capital structure includes debt and equity, of course, each source of funds has their respective costs (cost of funds), if the source of funds comes from debt, the minimum cost is the interest (cost of debts), while the source of funds derived from equity has the opportunity cost of equity itself which is also called the cost of equity.(Brigham & Houston, 2017: 43).

This research has the scope of Consumer Goods industry sector in Indonesia. This sector was chosen because of the rapid development in the Consumer Goods sector, as evidenced by the growth in the price of shares of Consumer Goods companies listed on the Indonesia Stock Exchange from period to period following. The Consumer Goods Sector is one of the other tough industrial sub-sectors, because this sector can survive and tend to be stable amid the global crisis. The Consumer Goods sector, which provides primary needs for the community and will certainly continue to be needed, has favorable prospects in the future. Because stock prices tend to be stable during the economic crisis and developments that tend to be significant in the Indonesia Stock Exchange, the selection of the Consumer Goods industry sector is considered appropriate in this study.

Based on data obtained from the website *www.idx.co.id*, the average debt and equity ratio of consumer goods companies listed on the Indonesia Stock Exchange for the period 2012 to 2018 has fluctuated. The rise and fall of the capital structure ratio is generally caused by the company's policy. The factor that can influence company policy is agency problem, which is a form of conflict that occurs due to the separation of ownership and control of the company. One form of resolution of the agency problem can be in the form of ownership division; shown in the ownership structure of a company.

Figure 1: Debt to Equity Ratio Average of Consumer Goods Companies listed on Indonesia Stock Exchange 2012-2018 Period
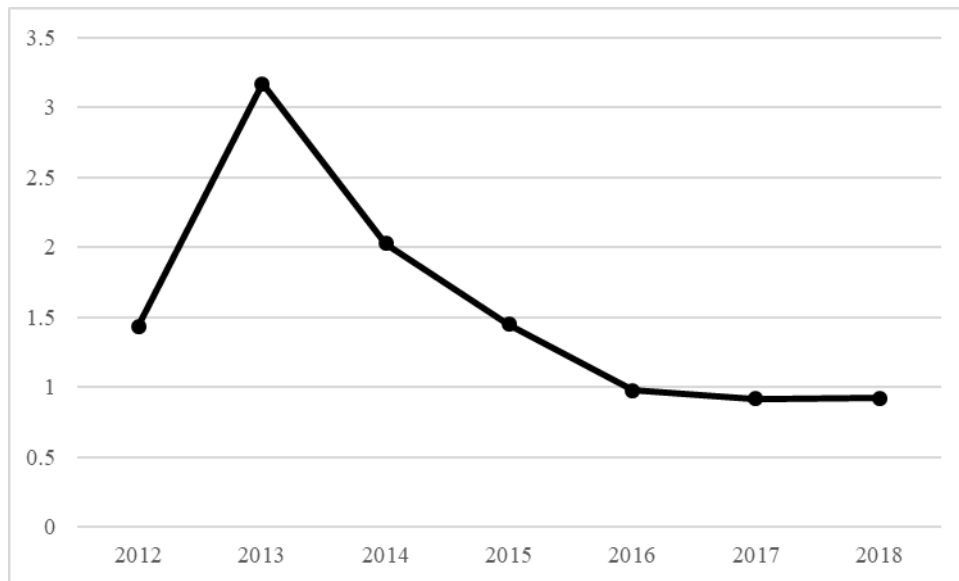
Source:*www.idx.com (2019)*

Agency costs are costs incurred to ensure or control the actions of managers (agents) to suit the interests of the principal (shareholders). There are several methods that can be used to reduce agency costs, two of them are motivational mechanisms and institutional investors as monitoring agents (Rahayu, 2017). The motivational mechanism is done by increasing managerial ownership in the company, to align the interests of internal managers as agents,with shareholders as principals. Research conducted by Wellalage (2011) shows that there is a significant positive relationship between managerial ownership and capital structure. This finding is supported by research by Susanto (2016),Ismiyati&Mamduh (2004), Rahayu (2005). However, in contrast to the findings of Thesarani (2017), Sheikh & Wang (2012), Maftukhah(2013), Hidayatullah (2013) which stated that there is a significant negative relationship between managerial ownership and capital structure.

The method of institutional investors as monitoring agents involves ownership of institutional investors such as banks, insurance companies, investment companies, and ownership by other institutions that are believed to be able to increase supervision of the performance of managers (agents) (Rachman, 2012). Institutional investors are considered as effective parties in supervising every action taken by the manager. Research conducted by Corsi&Prencipe (2015) and Akbari &Rahmani (2013), stated that there is a relationship between capital structure and institutional ownership; the greater the number of institutional investors in a company, the greater the company's debt. This finding is inversely proportional to the discovery of significant negative results by Farooq (2015), King &Santor (2008), Wahyudi&Parwestri (2006).

The firm age is about how long a company is able to survive, compete, and take business opportunities that exist in the economy (Syafi'i, 2013). The firm age can describe the process that the organization has taken in developing an approach to achievecompany goals. This process can be in the form of structural policies that have been carried out by the company such as the company's ownership structure. (Rafiq *et al.*, 2016). Older companies may have a better reputation because they already have experience in various conditions of different economic situations and make older companies have easier access to creditors than companies with younger age. Research conducted by Uyar & Guzelyurt (2015), Nugroho (2014) and Owusu & Ansah (2000) found that firm age has significant positive effect on capital structure. However, it is not the same as research conducted by Wardana & Sudiarta (2015), Ramlall (2009), Caetano &Zelia (2015)which mention that firm age has a significant negative effect on capital structure.

The research gap from those research results will be used as a basis for researchers to conduct another research using these variables of institutional ownership, managerial ownership, and firm age towards capital structure.

II. LITERATURE REVIEW

2.1 Agency Theory

Agency relationships occur when one party (principal) hires another party (agent) to carry out a service and delegates the authority to make decisions to the agent (Omar *et al.*,2017). An element of agency theory is that principals and agents have different preferences or goals (Panda &Leepsa, 2017). Managers are given power by company owners or shareholders, to make decisions, which creates a potential conflict of interest known as agency problem(Brigham & Houston, 2017: 1087). Several ways to reduce agency costs, one of which is to increase share ownership to management (Bendickson*et al.*, 2016). Greater managerial share ownership will reduce the potential for conflict between management and shareholders. Rashid (2015) stated that the distribution of shares between outside shareholders (institutional investors) and ownership dispersion can reduce agency costs. Institutional ownership such as banks, insurance companies or investment companies will increase the control that comes from external management.

2.2 Trade-Off Theory

Capital structure refers to a mixture of corporate debt and equity. Companies can collect funds from external sources or retain earnings rather than distribute them to shareholders. (Brigham *et al.*, 2017: 12). The trade-off model assumes that capital structure is the result of trade-offs from tax profits using debt with costs that will arise as a result of using that debt. The essence of trade-off theory in capital structure is to balance the benefits and sacrifices that arise as a result of using debt. As far as greater benefits, additional debt is still permitted. If the sacrifice due to the use of debt is already greater, then the additional debt is not allowed.

2.3 Pecking Order Theory

Pecking order theory states that financial managers prefer to use internal funds rather than funds from external parties (Alipour*et al.*, 2015). The company will form a financing hierarchy model. This hierarchical model ranks funding sources from those with low risk to highest risk. The company will start funding internally, the lowest-risk debt, down to riskier debt, hybrid securities such as, convertible bonds, preferred shares, and finally ordinary shares.(Colombage, 2007)

2.4 Capital Structure

The proportion between debt and equity in a company is called the capital structure.Corporate capital structure decisions include determining the target capital structure (optimal), average debt maturity, and certain types of financing that are decided to be used at a certain time. (Brigham *et al.*, 2017: 608)

Agency problems are very likely to occur when company managers have too much cash / cash so it tends to make expenditures in vain. One way to reduce excess cash is to increase the proportion of debt in the capital structure in the hope that higher debt service requirements will force managers to be more disciplined. However, too much debt can lead to underinvestment problems, conditions where the more debt a company has, the more likely it's experiencing financial difficulties and the more likely that managers will reject risky projects even though with a positive NPV.Therefore, in achieving its main objectives, companies must strive to find the target capital structure (or optimal) and then maintain the actual capital structure in accordance with the target capital structure from time to time.(Brigham *et al.*, 2017: 622)

2.5 Institutional Ownership

Institutional ownership is ownership of company shares owned by institutions or institutions such as insurance companies, banks, investment companies and ownership of other institutions (Tarjo, 2005). Institutional ownership has an important meaning in monitoring management because having institutional ownership will encourage increased oversight. Such monitoring will certainly guarantee prosperity for shareholders, the effect of institutional ownership as a supervisory agent is suppressed through their sizable investment in the capital market. The greater ownership by institutional investors will encourage an increase in more optimal supervision of management performance, especially in debt decision making. (Cinko&Kasaboglu, 2017)

2.5 Managerial Ownership

One way to reduce agency cost is the managerial ownership(Sadewa&Yasa, 2016). Managerial ownership is the proportion of shareholders from management who actively participates in corporate decision making (directors and commissioners) (Diyah&Erman, 2009). Ownership by a large management will effectively monitor the company's activities. Problems between agents and principals are assumed to disappear if a manager is also a shareholder. (Margaritis&Psillaki, 2010)

2.6 Firm Age

Firm age is calculated from the date of the IPO to the date of the annual report (Ulum, 2011). Firm age is considered able to describe the reputation of a company. If the company has been established for a long time, it is usually considered to have a good performance that will generate public trust. A long-established company, indirectly proved that the company is able to survive and make a profit in various economic conditions. In addition, it also shows how the company can maintain its reputation and position in the industry in an increasingly fierce competition environment. (Stefani, 2013)

III. METHODOLOGY OF RESEARCH

This study uses an associative quantitative approach to determine the relationship between research variables. The population in this study is all of the Consumer Goods companies listed on the Indonesia Stock Exchange (IDX) for the period 2012-2018. The sampling method in this study is census, which is a sampling technique where all members of the population are used as samples (Sugiyono, 2016: 118). This technique was chosen because the population is relatively small. Thus, the total sample obtained was 36 companies in the Consumer Goods sub-sector on the Indonesia Stock Exchange in 2012-2018.The object of this study is the capital structure that can be calculated based on the DER (debt to equity ratio) of the Consumer Goods company's annual report on the Indonesia Stock Exchange for the period 2012-2018.

3.1 Operational Definition

The variables contained in this study are:

Institutional ownership is measured by comparing the number of shares owned by institutional investors with the number of shares outstanding from the financial statements of consumer goods companies on the Indonesia Stock Exchange for the period 2012-2018 in the form of percentages. The formula for institutional ownership (Khamis *et al.*, 2015):

$$IO = \frac{\text{Number of shares owned institutionally}}{\text{total number of issued company shares}} \times 100 \quad\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\text{(1)}$$

Managerial ownership is measured by comparing the total shares owned by management with the number of shares outstanding from the financial statements of consumer goods companies on the Indonesia Stock Exchange for the period 2012-2018 in terms of percentages. Managerial ownership formula (Berke-Berga *et al.*, 2017):

$$MO = \frac{\text{Number of shares owned by management}}{\text{total number of issued company shares}} \times 100 \quad\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\text{(2)}$$

The firm age in this study uses from the year the company was listed on the Indonesia Stock Exchange. In this study, the number used to measure the age of a company is the year of establishment of the company listed in the financial statements of consumer goods companies on the Indonesia Stock Exchange for the period 2012-2018. Company age formula (Dibia& Onwuchekwa, 2013):

Firm Age = (Research Year - Year of Company Establishment)……..……(3)

The capital structure as measured by the debt to equity ratio or DER is calculated by the formula (Brigham *et al.*, 2017: 95) by comparing total debt (total debt) with total own capital (total shareholder's equity) listed in the Consumer Goods company's financial statements on the IDX period 2012-2018. DER can be calculated using the following formula:

$$DER = \frac{Total\ Debts}{Total\ Shareholder's\ Equity} \quad\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\text{(4)}$$

IV. RESULTS

The descriptive statistic result of this study as follows:

Table 1.
Descriptive Statistic Result
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Institutional Ownership	252	.000	.998	.71501	.216952
Managerial Ownership	252	.000	.683	.03054	.092007
Firm Age	252	0	37	19.17	7.990
Capital Structure (DER)	252	.040	70.831	1.55173	5.209337
Valid N (listwise)	252				

Source: SPSS Result (2019)

Before the regression analysis technique is used, the classical assumptions are tested first. This classic assumption test includes multicollinearity test, heteroscedasticity test, and autocorrelation test.

The multicollinearity test in this study was conducted by looking at the tolerance value and VIF from the processed SPSS data. In table 2. below, it is known that the tolerance and VIF values of the Institutional Ownership variables are 0.886 and 1.129, the tolerance and VIF values of the Managerial Ownership variables are 0.903 and 1.108 and the tolerance and VIF values of the Company Age variable are respectively 0.978 and 1.022, all indicate the tolerance value for each variable is greater than 0.1 and the VIF value is smaller than 10, which means the regression equation model is free from multicollinearity.

Table 2.
Multicollinearity Result

Model		Collinearity Statistics	
		Tolerance	VIF
1	Institutional Ownership	.886	1.129
	Managerial Ownership	.903	1.108
	Firm Age	.978	1.022

a. Dependent Variable: Capital Structure

The heteroscedasticity test was performed with the Glejser test. by comparing the significance level of the calculated results with provisions> 0.05, the regression model does not contain heteroscedasticity. In Table 3 it can be seen that the significance value of the Institutional Ownership variable is 0.131, the significant value of the Managerial Ownership variable is 0.501 and the significance value of the Company Age variable is 0.400. This value is greater than 0.05 which means there are no symptoms of heteroscedasticity.

Table 3.
Heteroscedasticity Result

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.929	.155		12.428	.000
	Institutional Ownership	-2.188	.176	-.651	-1.409	.131
	Managerial Ownership	-1.225	.367	-.174	-.342	.501
	Firm Age	.025	.005	.234	.694	.400

a. Dependent Variable: ABS_RES1

To find the presence of autocorrelation, the Durbin-Watson method (Dw test) was conducted. Based on table 4 the value of Durbin Watson (d-count) is 1.992. With a significant value of 0.05 and N = 252 and the number of independent variables k = 3, the value of du = 1.8228 is obtained; (4 - du) value is 4 - 1.8228 = 2.1772. Therefore, the Durbin Watson value (d-count) of 1.992 is between 1.8228 and 2.1772 so that it can be concluded that there is no autocorrelation.

Table 4.
Autocorrelation Result

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.546[a]	.299	.290	1.205902	1.992

a. Predictors: (Constant), Firm Age, Managerial Ownership, Institutional Ownership
b. Dependent Variable: Capital Structure

The results of multiple linear regression for this study shown in table 5. below.

Table 5.
Multiple Linear Regression Result

	Unstandardized Coefficients		Standardized Coefficients	T	Sig,
	B	Std. Error	Beta		
(Constant)	3.193	.292		10.927	.000
Institutional Ownership	-3.306	.332	-.563	-9.963	.000
Managerial Ownership	-3.731	.690	-.303	-5.408	.000
Firm Age	.021	.010	.115	2.148	.033

a. Dependent Variable: Capital Structure

Based on the results of data analysis using the SPSS 25 program which has been shown in table 6. the following structural equation is.

$$Y = 3{,}193 – 3{,}306\ X_1 – 3{,}731\ X_2 + 0{,}021\ X_3$$

Information:
Y   = Capital Structure (debt to equity ratio)
X1   = Institutional Ownership
X2   = Managerial Ownership
X3   = Company Age

Hypothesis testing is done by analysing the coefficient of determination (R^2) and the significance of the regression coefficient individually (t-test)

The coefficient of determination (R^2) essentially measures how far the model's ability to explain variations of the dependent variable. The results of the coefficient of determination test can be seen in Table 6. Following.

Table 6.
Coefficient of Determination Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.546[a]	.299	.290	1.205902

a. Predictors: (Constant), Firm Age, Managerial Ownership, Institutional Ownership
b. Dependent Variable: Capital Structure

N The magnitude of the effect of the independent variable on the dependent variable shown by the total determination value (Adjusted R Square) of 0.290 means that 29.0% of the variation of Capital Structure is influenced by variations in Institutional Ownership, Managerial Ownership and Age of the Company, while the remaining 71.0 % is explained by other factors not included in the model.

t-test is a test conducted to test how important the influence of independent variables on the dependent variable. The results of the significance of the individual regression coefficients (t-test) can be seen in Table 7.

Table 7.
t-test Result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.193	.292		10.927	.000
	Institutional Ownership	-3.306	.332	-.563	-9.963	.000
	Managerial Ownership	-3.731	.690	-.303	-5.408	.000
	Firm Age	.021	.010	.115	2.148	.033

a. Dependent Variable: Capital Structure

t-test results of Institutional Ownership of Capital Structure obtained a significance value of 0,000 with a beta coefficient of -3,306 negative value. Significance value of 0,000 <0.05 indicates that H1 was accepted. This result means that Institutional Ownership has a negative and significant effect on the Capital Structure of Consumer Goods companies listed on the Indonesia Stock Exchange. In other words, the increasing Institutional Ownership of Consumer Goods companies listed on the Indonesia Stock Exchange will further reduce the Capital Structure of Consumer Goods companies listed on the Indonesia Stock Exchange and vice versa. This result is in line with the pecking order theory, companies with high levels of institutional ownership will be more likely to choose to use internal funds or profits rather than using external funds to meet the needs of the company. The greater ownership by institutional investors will encourage an increase in more optimal supervision of management performance, especially in debt decision making. The results of this study are supported by the results of research conducted by Al-Najjar & Taylor (2008), Agyei & Owusu (2014), Farooq (2015), King &Santor (2008), Wahyudi&Parwestri (2006) which show that institutional ownership influences institutional ownership negative to capital structure.

T test results Managerial Ownership of the Capital Structure obtained a significance value of 0,000 with a beta coefficient of -3.731 negative value. Significance value of 0,000 <0.05 indicates that H2 was received. This result means that managerial ownership has a negative and significant effect on the capital structure of consumer goods companies listed on the Indonesia Stock Exchange. In other words, the increasing Managerial Ownership

of Consumer Goods companies listed on the Indonesia Stock Exchange will further reduce the Capital Structure of Consumer Goods companies listed on the Indonesia Stock Exchange and vice versa. The results of this study are supported by research by Thesarani (2017), Maftukhah (2013), Hidayatullah (2013), Sheikh & Wang (2012), Taswan (2003), Zulhawati (2004) and ErniMasdupi (2005). These results are consistent with agency theory which states that an increase in managerial stock can reduce agency costs because it can align the interests of company owners with those of managers. An increase in managerial shareholding will make managers more careful in using debt and minimize the risk posed by managers feeling that they own the company. In this case, there is no need to use debt as a tool to reduce owner-manager conflict.

The t test results of the Firm Age towards the Capital Structure obtained a significance value of 0.033 with a beta coefficient value of 0.021 positive value. Significance value of 0.033 <0.05 indicates that H3 is accepted. This result means that the age of the company has a positive and significant effect on the capital structure of consumer goods companies listed on the Indonesia Stock Exchange. In other words, the increasing age of companies in consumer goods companies listed on the Indonesia Stock Exchange will further increase the capital structure of consumer goods companies listed on the Indonesia Stock Exchange and vice versa. Research conducted by Hall *et al.* (2000) found evidence of firm age significant positive effect on capital structure. Supported also by research conducted by Nugroho (2014), Odit*et al.* (2011), Kieschnick&Moussawi (2018), Nugroho (2014), and Owusu & Ansah (2000). Odit*et al.* (2011) states that company age is seen as a standard measure of reputation in the capital structure model. Over time, from the perspective of the economic life cycle the company will increase its production activities for better business sustainability thereby increasing the capacity to take on more debt. Increasing age at the company also means that, companies will be able to access outside funding more easily compared to younger companies due to having experience in dealing with different conditions.

V. CONCLUSIONS AND SUGGESTIONS

Based on the results of the analysis and discussion that has been carried out, it can be concluded: Institutional Ownership has a negative and significant effect on Capital Structure. This shows that the more Institutional Ownership in Consumer Goods companies listed on the Indonesia Stock Exchange, the Capital Structure as measured by the ratio of debt to equity (DER) will decrease. Managerial ownership has a negative and significant effect on capital structure. This shows that the more managerial ownership of consumer goods companies listed on the Indonesia Stock Exchange, the Capital Structure as measured by the ratio of debt to equity (DER) will decrease. Company age has a positive and significant effect on capital structure. This shows that as Company age increases at Consumer Goods companies listed on the Indonesia Stock Exchange, the Capital Structure as measured by the ratio of debt to equity (DER) will increase.

Based on the conclusions that have been stated, the suggestions related to the research is the Company can use the results of this study as consideration in making capital structure decisions. This can apply to mature or aged companies as a result of research showing that older companies tend to have more debt on the assumption that the company already has a reputation and trust in the eyes of creditors. Thus, an old company can take advantage of this by owing more to develop its business. For Researchers Furthermore, this study has limitations in the form of only analyzing the variables of Institutional Ownership, Managerial Ownership, and Age of the Company towards Capital Structure. Further researchers are advised to examine other variables related to Capital Structure such as Board of Directors' Size, Family Company Share Ownership, and Company Size.

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