THE IMPACT OF MANAGERIAL OWNERSHIP, INSTITUTIONAL OWNERSHIP AND COMPANY SIZE TOWARDS DEBT POLICY

(Studies in Property and Real Estate Companies in IDX in 2011-2013)

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Abstract
The purpose of this research is to analyze the impact of managerial ownership, institutional ownership and company size towards company's debt policy in Property and Real Estate Share Exchange in 2011-2013. The samples in this study were 48 companies. Sampling techniques in the study was conducted by purposive sampling technique. The analysis technique used was multiple regressions. Results analysis used multiple regression analysis showed that managerial ownership had a negative coefficient on Debt Policy, but not significant. Institutional ownership and company size had a positive impact on the Company's Debt Policy.

Keywords: *Managerial Ownership, Institutional Ownership, Company Size, Debt Policy.*

INTRODUCTION

Financial management aims to maximize the welfare of the owners (shareholders) through an investment decision or policy, financing, and dividend which is reflected in the share price in the capital market. In running a business, the owner delegate duties to other parties, namely the managers. Based on agency theory, companies often face problems on the difference between the interests of the company owner and the managers. The owner wants to achieve the main goals of the company by increasing the company value. While the managerial side are more likely to give priority to personal prosperity through the incentives they may gain. When a company faces a problem of funding decision through debt, the shareholders tend to avoid it because of the risks they may bear. Meanwhile, the managerials who have duty as professionals will love this. Funding availability from the creditors will be used by the manager for an investment that may be profitable for them as they may get incentives without thinking about the risks that basically borne by the company (Masdupi, 2005).

Debt policy is about how a company utilizes the facilities of external funding (debt) in order to minimize the magnitude of risks that should be borne by the company. The greater proportion of company debt is, the higher the burden of principal and interest to be paid back and the higher the risk of bankruptcy. By the risks, the company should be able to make appropriate debt policies so that the utilisized debt can help the company to grow and develop and no failure in repaying the debt (Indahningrum, 2009).

One way to reduce agency problems associated with debt policy is to improve the managerial ownership. Share ownership by the managers is an incentive for managers to improve the performance of the company and the managers will use the optimal debt because the managers are also acts as shareholders (Sudarsi, 2008). Managerial ownership

ISBN 978-602-19725-8-8

has a negative impact on the company debt policy. Wahidahwati (2002) found negative impact of debt ratio towards managerial ownership. As well as research conducted by Junaidi (2006) and Masdupi (2005). While according to Pure and Andriana (2007) managerial ownership did not significantly influence the company's debts policy.

Not only influenced by managerial ownership, debt policy is also alleged to be influenced by institutional ownership. Institutional ownership is generally acted as the controlling party of the company. Research conducted by Hasil Bhakti (2012), Indahningrum and Handayani (2009), Yeniatie and Destriana (2010) proved that institutional ownership had a negative impact on debt policy. However, the study results by Wiliandri (2011) and Susanto (2011) showed that institutional ownership did not affect the debt policy.

Debt policy is also thought to be influenced by company size. Company size is a company's ability to take the existing business opportunities (Steven and Lina, 2011). The larger the company, the more money that is used to run the company's operations, one of the fund sources are making debt. The company size is a factor to be considered in determining the level of company debt. Result form the research conducted by Wiliandri (2011) and Susanto (2011) stated that the company size had a positive impact on debt policy. In contrast, research conducted by Steven and Lina (2011) stated that the company size did not affect the debt policy.

This study is a replication of a study conducted by Bhakti (2012) on the impact of managerial ownership structure and institutional ownership towards debt policy. The differences are that the previous study was conducted in 2009-2011 in manufacturing, while the current study is conducted in 2011-2013 Property and Real Estate company group. The previous research used two independent variables, namely managerial and institutional ownership. But this study used 3 independent variables those were managerial ownership, institutional ownership, and company size. This study is important to do since there was inconsistency of the previous study results (research gap) related to debt policy. This study add company size which are based on research conducted by Susanto (2011) who found that company size was one factor that was closely related to the debt policy development.

Basic considerations focus on Property and Real Estate companies since the Property and Real Estate industrial sector is a sector with characteristics that are difficult to predict and has relatively high risk. Property and Real Estate industrial sector is expected to contain high risks, since the main source of financing of this sector is generally obtained through bank loans, while this sector operates with fixed assets such as land and buildings. Although land and buildings can be used to pay off the debt but those assets cannot be converted into cash within a short time, so many developers cannot repay the debt at the specified time. Beside fixed assets, the inability of developers in repaying the debt is usually caused by a selling rate reduction. Rate reduction is a result of land speculation (land mark-up) which makes the price of land to be expensive, causing the high price of houses and buildings. High price of houses and buildings that followed by the tendency of over supplied, causing the selling rate is far below the set targets. Nevertheless, in reality this sector is quite interested by many employers and gets full support of banking that provides their credits portfolio for property (Finky et al, 2013).

The purpose of this study is to examine and determine whether managerial ownership, institutional ownership, and company size have impact on debt policy in Property and Real Estate companies in the Share Exchange in 2011 – 2013. This study is expected to have benefits in consideration and information aspects for managers in determining funding alternatives and the aspects that affect them. The study results are also

ISBN 978-602-19725-8-8
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expected to be a consideration for the investors in making investment decisions, especially in choosing companies associated with the debt policy structure in the company.

LITERATURE REVIEW

Agency Theory

Agency relationship occurs when one or more individuals, called principals hire another organization, which is referred to as an agent to perform a number of services and delegate the authority to make decisions to the agent. In financial management, the main agency relationship occurs between shareholders and managers as well as managers and debt owners. In a company, managers may have personal goals that compete with the goal of maximizing shareholders' wealth. The managers are authorized by the owners of the company, ie shareholders, to make decisions, where this condition may create a potential conflict of interest, known as the agency theory (Brigham and Houston, 2006).

Agency theory can cause problems when both parties have different goals. The shareholders have ppurpose to gain more wealth and prosperity for the capital owners, while managers want to increase the managers' welfare. Thus conflict of interest between shareholders with managers is emerge. Conflict is often called the agency conflict. It can be minimized by a monitoring mechanism which align the interests of the related parties. By this monitoring mechanism, there will appear another cost called the agency cost. Van Horne and John (1997) explain that agency costs are costs that correlated to monitoring management to ensure that management acts consistently between contractual agreements of the company and the creditors and shareholders.

According to Barry (2000) in Indahningrum and Ruth (2009), there are several alternatives to reduce agency cost, namely: first, by increasing the company's share ownership by the management, secondly, the monitoring mechanism in the company, the third, by increasing ddividend payout ratio, by increasing funding through debt.

Debt Policy

Debt policy is a policy to determine the amount of existing debt in the company in order to remain stable (Susanto, 2011). Financing by debt has an influence to the company because debt has a fix burden nature. Failure in paying interest on the debt can lead tthe company to financial difficulties which may end up with bankruptcy. However, the use of debt also provide tax subsidies on interest that can benefit the shareholders. Therefore, the use of debt must balance the advantages and disadvantages (Tampubolon, 2005).

Debt policy is often measured by the debt-to-equity ratio (DER). The lower DER means the smaller debt level and the ability to pay debts will also be higher. When a company use debt that continues to increase, then it will have bigger responsibility to pay. This will affect the net income to the shareholders as well as the shared dividends, since the obligation to pay the debt will be more preferred than the obligation to distribute dividends.

ISBN 978-602-19725-8-8
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Managerial Ownership and Debt Policy

Managerial ownership is the percentage of shares ownership by the management party who actively participate in the company decision-making process (Tarin, 2007). In running the company, managers must be careful in making decisions of this fundinf aspect. It is due to each funding source has different financial consequences. Problems of funding decisions will be associated with choosing a good source of funds derived from inside (internal) or from outside (external) which may greatly affect the company value. Financial funding decision will also determine the company's ability to perform its operational activities.

The difference in interest between the principal and the agent will always be a continuous conflict within the company. Principal parties focus on their personal welfare through dividend distribution obtained. While the agency parties will focus on commission for their hard work in running the company operational. These goals are sometimes controvert. The owners are often fail to realize dividends on capital when the company under the management control has utilizes a relatively high debt. Cash money that should be distributed into dividends are used to pay debts and the interest. This is the root of the conflict of interest to be occured (Wahidahwati, 2002).

In aligning the interests of both parties then one step to be taken is increasing ownership by the managerials. By increasing ownership by the managers, then the managers will be able to feel the direct result of tehir decisions so that the managers could not act opportunistically nymore (Masdupi 2005). The larger shares held will make the management private wealth becomes more tied to the company so that management will use a low level of debt to reduce the risk of bankruptcy. Research conduted by Jensen and Meckling (1976), Bathala, et al. (1994), Wahidahwati (2002), Junaidi (2006) and Masdupi (2005) showed the negative effect of managerial ownership with debt policy.

H1: Managerial ownership had a negative impact towards debt policy

Institutional Ownership and Debt Policy

Institutional ownership is indicated by the proportion of shares held by institutional investment and blockholders. Institutional shares ownership has an important role in monitoring the company management in order to reduce agency conflicts in a company. Increased surveillance activity by investors is supported by efforts to improve management's responsibility. This activity can be performed by placing the advisory committee who works to protect the interests of the investors (Susanto, 2011). Institutional share ownership in insurance companies, banks, investment companies, and ownership by other institutions will encourage increased supervisory more optimally on the managers' performance. Implementation of this monitoring action may ensure increased supervisory more optimally (Listyani, 2003).

Companies that have a limited amount of internal funds to finance its investment activities would increase funding from external sources. Share ownership by external parties (institutional investors) will cause the performance of managers to be more controlled so that managers may act on the desire of shareholders who do not want to use a high-risk debt and anticipate the possibility of company bankruptcy. The higher institutional ownership, the stronger internal controls of the company which will be able to reduce

ISBN 978-602-19725-8-8

agency costs in the company as well as improper use of debt by the managers (Masdupi, 2005). A research conducted by Bhakti (2012) found that institutional ownership had an negative impact towards debt policy. This result is in accordance with the research conducted by Jensen and Meckling (1976), Wahidahwati (2002), and Masdupi (2005).

H2: Institutional ownership had a negative impact towards debt policy

Company size and Debt Policy

Company size reflects the size of the company that appears in the total value of company's assets on the balance sheet at the end of the year (Sujoko danSoebiantoro, 2007). The higher of total assets, the greater the company size. The company size became one of the variables that are considered to affect the company's decision in choosing the form of funding.

Large companies can easily access the capital markets. Ease to access the capital markets means that the company has flexibility and the ability to obtain funding. Large companies tend to be easier to obtain a loan from a third party, because of its ability to access other party or collateral assets held in the form of greater value than small companies. Large companies will be more secure in obtaining debt because the company is able to fulfill its obligations and has a steady cash flow (Wahidawati, 2001). Many studies stated that company debt policy was influenced by the company size and suggested a positive correalion between company size and debt policy. Research conducted by Moh'd et.al. (1998), Wahidahwati (2002) and Wiliandri (2011) showed a positive impact between company size and debt policy.

H3: The company size had a positive impact on debt policy

RESEARCH METHODS

Population and Sample

The population in this study was Property and Real Estate companies listed on the Share Exchange during the period of 2011 - 2013, amounting to 52companies. The sampling technique used in this study was purposive sampling. The samples criteria were the following:

1. All Property and Real Estate companies listed on the Share Exchange in 2011- 2013 which published Annual Report and submitted regularly in the year of 2011-2013.
2. Companies that have data needed for this study which provide managerial ownership, institutional ownership, company size and debt policy data.

Data Type and Source

The data type in this study was secondary data obtained from the financial statements of the sample companies. Sources of secondary data were obtained from Annual report in 2011 – 2013 which were obtained from the Indonesia Share Exchange (IDX).

ISBN 978-602-19725-8-8

Research Variables

The variables used in this study were classified into two, namely:

1. Independent Variables
   Independent variables used in this study were:
   a. Managerial Ownership (X1)
      Managerial ownership was measured by the formula (Wahidawati, 2001):

      MOWN = Total Managerial Stocks / Number of Outstanding Stocks

   b. Institutional Ownership (X2)
      Institutional ownership was measured by the formula (Susanto, 2011):
      INS = Number of Institution Stocks_ / Number of Outstanding Stocks
   c. Company size (X3)
      Company size is measured by the natural logarithm of total assets (Sugiarto and Budhijono, 2007).
2. Dependent Variable
   Dependent variable in this study was Debt Policy (Y).
   Debt policy was measured by the formula (Moh'd et al, 1998 and J.John et al, 2005):

   DER = Total liabilities / Total shareholder's equity

Techniques and Data Analysis

Classic assumption test is used to test data when a study uses multiple regression analysis techniques. Assumptions test consists of Normality Test, Heterocedasticity, Multicollinearity and Autocorrelation test (Ghozali, 2006)

Multiple Regression Analysis

Data were analyzed using multiple regression to test the impact of independent variables on the dependent variable. To determine the impact, multiple regression equation can be performed with the following model:

$Y = a + b1x1 + b2X2 + b3X3 + e$
in which:
Y = Debt policy
a = Constant
b = Regression coefficient
X1 = Managerial ownership
X2 = Institutional ownership
X3 = Company size
ε = Standard error

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RESULTS AND DISCUSSION

Research Sample

The objects of this study were Property and Real Estate companies listed on the Share Exchange in 2011 - 2013. Of the population based on sample selection criteria there were samples of 16 companies in this study.

Table 1: Results of Sample Selection

No.	Description	Amount
1.	Population	52
2.	Did not report annual report in a row in www.idx.co.id	(17)
3.	Did not have managerial ownership and institutional ownership per year	(19) 16
	Number of Observations For 3 Years	48

Descriptive Statistics

The descriptive statistics of the study results showed the number of company samples used in the study, the minimum value, maximum value, the mean and standard deviation of each variable. More details can be seen in Table 2 below:

Table 2
Descriptive Statistics of Research Variables

	N	Minimum	Maximum	Mean	Deviation Std.
Managerial Ownership	48	0.0001	0.5031	0.0629	0.1259
Institutional Ownership	48	0.0827	0.9288	0.6016	0.2474
Company Size	48	25.6400	30.6300	27.8516	1.5779
DER	48	0.0800	2.2700	0.8310	0.5532
Valid N (listwise)	48				

Hypothesis Test Results and Discussion

To validate the truth of proposed hypothesis with multiple regression analysis, the analysis results can be seen in the table below:

Table 3: of Multiple Regression Model Test Results

Variable	Unstandardized Coefficients B	t	Sig.
(Constant)	-4,075	-4,177	0,000
Managerial ownership	-0,361	-0,777	0,441
Institutional ownership	0,440	2,041	0,047
Company Size	0,379	4,918	0,000

Dependent Variable: DER, Adj. R Square = 0,465, F-test = 14,590, Sig. = 0,000

ISBN 978-602-17225-8-8

Managerial Ownership and Debt Policy

Managerial Ownership variable is measured by the percentage share ownership by the managers. Based on the test results we obtained that significance value of 0,441was greater than significance level of 0.05. So it can be concluded that the first hypothesis (H1) who stated that managerial ownership had a negative impact towards debt policy was rejected. The test results showed that managerial ownership had no impact on debt policy. This result is in accordance with the results of a research conducted by Pure and Andriana (2007) which stated that managerial ownership had no influence on debt policy.

Low managerial share ownership in the company was a factor that caused the hypothesis rejected. Share ownership by the insiders was smaller than other groups within the company so that the managers who own shares could not take decisions based on their own desires and decisions regarding the debt were not fully carried out by the management (Damayanti, 2006). Additionally Sujoko and Soebiantoro (2007) explain that the managers are consistent with their duty that is to prosper the company's wealth. So, with or without ownership by the management, the manager remains consistent with his or her obligations to the company (shareholders). Management has no control in determining policy debt as much controlled by the majority owners. The study results did not support the agency theory which states that managerial ownership is a way to reduce the agency cost by encouraging managers to participate as owners of the company's capital, so financial decisions taken by the managers who are also the share holders will result in them as managers.

Institutional Ownership and Debt Policy

Institutional Ownership variable is measured by the percentage of ownership by institutions. Based on the test results, the significance value of 0,047 with t 2,041 had a significant positive impact with the level of significance of 0.05. So it can be concluded that the second hypothesis (H2) which stated that the institutional ownership had a negative impact towards debt policy was rejected. Analysis results showed that institutional ownership had a positive impact on debt policy. This study result is consistent with the research results of Haryono (2004) and Pure and Andriana (2007) which showed that institutional ownership had a positive influence on debt policy.

The study result indicated that greater shares ownership by a small group of companies or blockholder made greater courage in taking a loan or enlarged the DER. The study result supported the theory that institutional ownership had greater authority than the other groups of shareholders to tend choose riskier projects with the hope of getting high profits. To finance the project, the investor chose financing through debts. By the policy, they can transfer the risk to the creditors if the project fails. If the project succeeds, the shareholders will receive some money because the creditors will only be paid a certain amount in the form of interest (Faisal, 2004).

This result is contrary to the existing theory that the greater the percentage of shares held by institutional ownership, the more effective the monitoring efforts because it can control the opportunistic behavior performed by the managers (Bathala et al, 1994).

ISBN 978-602-19725-8-8

Company Size and Debt Policy

Company size variable is measured by the natural logarithm of the company total assets. Based on the test it was obtained a result which showed that significant value of 0.000 which mean that there was significant positive impact on the significance level of 0.05. So it can be concluded that the third hypothesis (H3) which stated that the company size had a positive impact on debt policy was accepted.

Company Size variable had a positive and significant impact on the company debt. This result was consistent with the research conducted by Wiliandri (2011) and Susanto (2011). The larger the company size, the greater agency problems within the company. To minimalize the company agency problems, then the company needs to increase the quality in order to fulfill the funding needs of the company. A great company will easily make access to capital markets and faster to obtain funds. So a greater company is expected to have the opportunity to attract large amounts of debt in comparison with small companies. Fixed tangible assets and other assets such as accounts receivable and inventory can be used as debt collateral. It is fit with the conditions in Indonesia, which shows that the company which has a policy in its capital structure is more in using a company size that can be assessed from the total assets. If seen from the large number of assets owned, the company gains a greater debt because of great collateral to obtain loans (Wiliandri 2011).

Conclusion

Based on the results and analysis of the data that has been presented in the previous chapter, it can be concluded as follows: (1) Managerial ownership variable did not affect the debt policy. This is due to the share ownership by the managerial department in the company was still low, so it had not been able to influence the level of company debt usage in order to reduce the agency cost. (2) Institutional ownership variable had a positive impact on debt policy. This result did not support the agency theory that institutional share ownership can substitute the debt in controlling the agency costs. (3) Company size variable had a positive impact on debt policy. It means that companies with a larger size are estimated to have the opportunity to attract large amounts of debt in comparison to small companies.

Applied Implications

The results of this study indicated that institutional ownership had a positive and significant impact on DER. This research is taken into consideration for investors, that they should pay attention to the institutional ownership aspect as they will invest. Risk avers investors are better to invest in companies which institution ownerships are low, since the debts are also low, so that they are possible to have a lower risk. In contrast, the risk taker investors should invest in companies which institution ownerships are high, because of high debt so that they are possible to have a greater risk. This study is also expected to provide an overview for managers to be more careful in using large amounts of debt to take a profitable investment for the company.

In this study it was found that the company size had a positive impact on debt policy, so this study should be a consideration for investors and creditors to pay attention to the company's assets aspect when they want to invest. Since the assets of the company are a guarantee for the investment prospects of both investors and creditor. This study is also expected to provide an overview for managers that company size had an impact to the debt

ISBN 978-602-19725-8-8

policy. So if a company requires a source of funds through debt then the manager should improve the company's performance to increase the assets.

Suggestion

With the limitations in this study, recommendations for further research are: (1) Extend the time period of research observation and using the latest period, because the longer the observation period and the newer period in the research, the more samples to be involved, so that the greater the opportunity to obtain information about the reliable variable data. Thus the research conducted can create better results. (2) Can multiply and expand the sample companies used in the study, so as to describe the characteristics of the manufacturing companies population listed in Indonesia Share Exchange more accurately.

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