

*SIJDEB*, 5(1), 2021, 63-90

p-ISSN: 2581-2904, e-ISSN: 2581-2912

DOI: <https://doi.org/10.29259/sijdeb.v5i1.63-90>

Received: 17<sup>th</sup> December 2020; Revised: 15<sup>th</sup> March 2021, 24<sup>th</sup> March 2021, 28<sup>th</sup> March 2021;

Accepted: 29<sup>th</sup> March 2021

---

## SRIWIJAYA INTERNATIONAL JOURNAL OF DYNAMIC ECONOMICS AND BUSINESS

---

### Ownership Structure, Debt Policy, and Financial Constraints

<sup>1</sup>Bintang Lazuardi Benteng Buana Muslim and <sup>2</sup>Abdul Moin<sup>2</sup>

<sup>1,2</sup>Faculty of Business and Economic, Universitas Islam Indonesia

<sup>1</sup>bintangbuana121295@gmail.com, <sup>2</sup>moinjogja@gmail.com

---

**Abstract:** This study aims to determine how the effect of ownership structure on debt policy with financial constraints as a moderating variable in non-financial companies listed on the Indonesia Stock Exchange in 2015-2019. The partial results of foreign, managerial, institutional, and family ownership do not affect the debt to equity ratio (DER). Financial constraints can moderate institutional ownership against the DER but cannot moderate foreign, managerial and family ownership to the DER. The partial results of foreign, managerial, institutional, and family ownership do not affect the debt to asset ratio (DAR). Financial constraints can moderate managerial and institutional ownership of the DAR but cannot moderate foreign and family ownership of the DAR. Meanwhile, foreign ownership, managerial, institutional, family, and financial constraints simultaneously influence debt policy.

**Keywords:** debt policy; ownership structure; financial constraints

---

### Introduction

The financial condition of state-owned companies is facing a major threat, namely the high total debt in the Asia Pacific region. Based on data from the Global Rating Agency, Moody's Investors Service (MIS) said that low tax rates in a country still depend on state-owned companies funding public financing (July 2019). From a corporate governance point of view, Indonesia has lower implicit debt management than other countries (Ayuningtyas, 2019).

The problem of high debt faced by companies does not necessarily mean that the company will experience liquidity. Companies can minimize debt by improving profit performance and companies having sufficient capital means that the company has good debt management. Debt to equity ratio (DER) can also find out that the higher the debt, the higher the company's credit risk. There are several companies from the construction sector that have the highest to lowest DER, namely PT. Garuda

Indonesia (GIAA) Tbk amounting to 4.4x, PT. Adhi Karya (ADHI) Tbk amounting to 3.9x, and PT. Waskita Karya (WSKT) Tbk amounting to 3.6x. The high DER of issuers in the construction sector is due to payments made after work is completed or project handover from the contractor to the project owner (developer) (Ayuningtyas, 2019). Every company must have good debt management to minimize debt and still pay attention to the main objectives of the company, namely the prosperity of the company owner (shareholders), achieving maximum profit and increasing company value. Debt owed by the company is used to fulfill company operations when internal sources of funds are insufficient. .

Hadlock and Pierce (2010) designed the SA index based on the characteristics of the company. The SA index calculates the scale and age variables of the company as a proxy to determine financial constraints on the company. In companies there are various types of share ownership by investors. The existence of various types of share ownership by these investors can help increase company value. One way is for investors to invest in companies. The more funds that are invested, the more the company value will increase. Share ownership by investors is an interesting material to study because the author wants to know the importance of share ownership by investors on debt. Investors need to know the development of debt composition in non-financial sector companies during the last five years (2015-2019).

Foreign ownership is ownership of company shares by individual investors or foreign companies. The existence of foreign ownership in a company will influence capital decisions (Thai, 2017). Managerial ownership is share ownership by shareholders and managers who take an active role in running the company. The existence of managerial ownership is considered capable of reducing agency conflicts between managers and shareholders. Debt has a function to oversee management activities that aim to reduce agency costs (Shahzad & Nazir, 2017). Institutional ownership is ownership of shares by institutions or institutions such as insurance companies, banks, investment companies and other financial sector ownership (Tahir et al., 2020). The existence of institutional ownership can improve supervision to be more optimal. Family ownership is the involvement of two generations in a family that has decision-making power that can affect company policy (Donnelley, 1964). The existence of family ownership in the company can improve supervision to be more optimal. Strong family ownership indicates the involvement of the founding family to supervise the investment owned and continue to monitor management to reduce agency conflicts.

The results of this study were supported by several previous researchers, some of the findings of previous researchers resulted in contradictory findings. The results of research by Le, et al. (2017), Fayez (2019), Gurunlu and Gursoy (2010) and Taran (2019) stated that foreign ownership has a negative effect on debt policy. While the research results of Ahmad et al. (2018) and Hussein (2019) state that foreign ownership has a positive effect on debt policy. Meanwhile, the results of research by Lee (2008) and Peilouw (2017) state that foreign ownership has no effect on debt policy. The research results of Lukens (2016), Oktaviantari (2019), Quang and Xin (2013), Khan (2015), Vo and Nguyen (2014), and Viriya (2017) state that managerial ownership has a negative effect on debt policy. Meanwhile, the research results of Fayez (2019) and Le et al. (2017) stated that managerial ownership has a positive effect

on debt policy. Meanwhile, the results of research by Grossman and Hart (1982) state that managerial ownership has no effect on debt policy.

The results of research by Hayat et al. (2018), Abobakr and Elzigiry (2016), Ahmad et al. (2018) and Khan (2015) state that institutional ownership has a positive effect on debt policy. Meanwhile, the research results of Lukens (2016) and Tahir et al. (2020) stated that institutional ownership has a negative effect on debt policy. The results of research by Hasan and Butt (2009) and Grier and Zychowicz (1994) state that institutional ownership has no effect on debt policy. The results of research by Baek et al. (2016), Gottardo et al. (2016), Lukens (2016) and Gonzalez (2013) state that family ownership has a positive effect on debt policy. While the results of research by Anderson and Reeb (2003) state that family ownership has a negative effect on debt policy. The results of research by Rebecca and Siregar (2013) and Claessens et al. (2000) stated that family ownership has no effect on debt policy.

The research results of Colombo (2001) state that financial constraints cannot moderate foreign ownership of debt policy. The results of research by Shibata and Nishihara (2018) state that financial constraints cannot moderate managerial ownership of debt policy. The research results of Edmans and Manso (2011) state that financial constraints cannot moderate institutional ownership of debt policy. The results of research by Gugler (2003) and Hung and Kuo (2011) state that financial constraints cannot moderate family ownership of debt policy. The purpose of using financial constraints is to determine whether the ownership structure has financial constraints or not on debt policy.

The findings of several previous researchers created research gaps. This study fills the gap in the research gap, so this research uses a moderating variable, namely financial constraints. Financial constraints serve to moderate the influence of foreign, managerial, institutional and family ownership on debt policy. Thus, the existence of this financial constraint, whether foreign ownership, managerial, institutional and family research results show more significant or not to debt policy. The author suspects that there is a direct influence on the independent variables, namely foreign, managerial, institutional and family ownership with financial constraints as a moderation for debt policy.

## **Literature Review**

### ***Debt Policy***

Debt is a source of funding that comes from outside the company to fulfill the company's operations. Companies can use external funding if internal funding experiences a lack of funds, then the company can use debt as an alternative funding to help the company meet operational needs and get funds quickly if at any time the company experiences a lack of funds compared to the company having to wait for the process of obtaining funds through internal funding such as sale of shares or retained earnings (Endri, 2018). With debt financing, it serves as one of the most important sources of finance when the company lacks its own capital. Most companies use debt in large or small proportions depending on how many factors the company is facing in general. This is known as the company's debt policy. In addition, the benefit of using

debt for companies is that companies can consider greater investment opportunities that can increase company value. On the other hand, the impact of excessive use of debt can cause serious problems because the company carries a high risk. (Stryckova, 2019).

### ***Pecking Order Theory***

Myers and Majluf (1984) state that there is no optimal level of debt in the pecking order theory. This is because there is information asymmetry and signal problems related to external funding so that funding policies will follow the order of funding. The company will prioritize internal funding rather than external funding. The pecking order theory explains that companies in funding corporate capital can use internal funding, debt, and finally the issuance of shares. The pecking order theory states that first the company uses internal funding. Companies choose to use internal funding because of the high level of profitability and low debt. If the company needs external funding, the company can issue the safest securities starting from the issuance of bonds, securities with option characteristics and finally the issuance of new shares. In this theory, funding is differentiated on the basis of information asymmetry held by insiders and outsiders, which makes companies prefer to use internal funding rather than debt to finance investment. The pecking order theory states that a company will reduce debt when the company has a lot of internal funds (Pontoh, 2017).

### ***Agency Theory***

Jensen and Meckling (1976) state agency theory, namely the separation of ownership and supervision in controlling the company which allows conflicts of interest between managers and shareholders. In financial theory, one of the goals of the company is to make shareholders prosper by increasing the company's 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. 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. The term agency relationship proposed by Jensen and Meckling (1976) is widely used in research in economics and finance to study and analyze conflicts that occur between the company owner (principal) and the manager (agent).

### ***Foreign Ownership***

Foreign ownership is the ownership of company shares by individual investors or foreign companies. The existence of foreign ownership in a company will influence capital decisions (Thai, 2017). Foreign investors investing in emerging markets are generally faced with a worse information asymmetry than other investors. This is because foreign investors only have less access to information than other investors. Also besides, foreign investors also only have a low proportion of share ownership in each company as evidenced by this diversified portfolio. Due to the low foreign ownership in the company, foreign investors do not have sufficient power to monitor management in the company. Actions are taken by foreign investors to monitor

management in a way that foreign investors force companies to use large amounts of debt. Companies with high foreign ownership certainly have various financing channels to access capital because of their reputation and relationship. Therefore, foreign investors have access to information and the ability to understand this information on company performance (Fayez, 2019).

### ***Managerial Ownership***

Managerial ownership is share ownership by shareholders and managers who take an active role in running the company. The existence of managerial ownership is considered capable of reducing agency conflicts between managers and shareholders. Debt has a function to oversee management activities that aim to reduce agency costs (Shahzad & Nazir, 2017). Lumapow's research results (2018) state that agency theory can reduce agency conflict by increasing managerial ownership. And this increase in managerial ownership leads to convergence between managers and shareholders to reduce agency conflicts. Ahmad et al. (2018) argue that most companies increase debt which aims to improve the performance of their managers as debt financing to reduce agency costs. Most companies choose to use debt to minimize agency costs, increase managers' voting rights and control over the company. The high managerial ownership in the company will reduce debt. Managerial ownership in companies with high debt means that managers tend to have a higher risk than company owners. Companies with high debt result in managers losing their jobs and companies experiencing the risk of bankruptcy.

### ***Institutional Ownership***

Institutional ownership is the ownership of shares by institutions or institutions such as insurance companies, banks, investment companies, and other financial sector ownership (Tahir et al., 2020). The existence of institutional ownership can improve supervision to be more optimal. Institutional ownership or known as institutional ownership is one of the company's ownership structures. There is a relationship between institutional ownership and debt, namely shareholders have a role in supervising company management and establishing policies carried out by company managers so that the high proportion of institutional ownership can affect the company's debt policy (Safitri, 2017).

### ***Family Ownership***

Family ownership is the involvement of two generations in a family that has decision-making power that can affect company policy (Donnelley, 1964). The existence of family ownership in the company can improve supervision to be more optimal. Strong family ownership indicates the involvement of the founding family to supervise the investment owned and continue to monitor management to reduce agency conflicts. Shareholders with a large percentage of share ownership have different incentives from diversified shareholders (Shleifer & Vishny, 1986). In this case, one of the large shareholders is the founding family who has a stronger incentive to maximize firm value and gather information and manager monitoring. For investment and long-term survival of the company can reduce conflicts between creditors and family owners. The existence of a reduction in agency costs between creditors and families can reduce debt costs and encourage family firms to use debt more (Anderson & Reeb, 2003).

### ***Financial Constraints***

Fazzari, Hubbard, and Petersen (1988) first defined financial constraints as companies having limited funding caused by the company's inability to obtain funds outside the company because external financing is more expensive than internal financing. They argue that financial constraints arise from market incompleteness such as information asymmetry and agency costs. When the capital market is incomplete, the costs of external funding and internal funding are not the same. This means that the company's external funding costs are higher than internal funding costs. If the company fails to meet its internal sources of funds, the company can use external funds at a higher cost. However, companies often lose investment opportunities which are not only caused by high external financing costs but companies are also limited in the use of debit credit (Zhang et al., 2019).

### ***The Effect of Foreign Ownership on Debt Policy***

Foreign investors investing in emerging markets are generally faced with worse information asymmetry than other investors. This is because foreign investors only have less access to information than other investors. In addition, foreign investors also only have a low proportion of share ownership in each company as evidenced by this diversified portfolio. Due to the low foreign ownership in the company, foreign investors do not have sufficient power to monitor management in the company. Actions taken by foreign investors in order to monitor management in a way that foreign investors force companies to use large amounts of debt. Companies with high foreign ownership certainly have various financing channels to access capital because of their reputation and relationship (Fayez, 2019). The results of research by Le, et al. (2017), Gurunlu and Gursoy (2010), and Taran (2019) state that foreign ownership has a negative effect on debt policy. In general, foreign investors bear more risks such as business risks and country risks than domestic investors. As a result, many of the risks faced by foreign investors will be motivated to minimize risk by using their capital, technology and capabilities to be able to access new capital markets. Thus, high foreign ownership can improve debt policy.

$H_1$  = Foreign ownership has a negative effect on debt policy.

### ***The Effect of Managerial Ownership on Debt Policy***

High managerial ownership causes managers to bear great responsibility for company assets where good cooperation between managers and shareholders is needed. Debt functions as a monitoring of management activities. Managerial ownership and debt have alternative mechanisms to reduce agency costs. The high level of managerial ownership means that companies are increasingly disciplined in using debt. Therefore, high managerial ownership can reduce debt policy. The research results of Lukens (2016), Lumapow (2018), Oktaviantari (2019), Quang and Xin (2013), Khan (2015), Vo and Nguyen (2014), and Viriya (2017) state that managerial ownership has a negative effect on debt policy. The existence of managerial ownership is able to reduce conflicts between managers and shareholders. Managerial ownership indicates that managers are given great responsibility for the company so that good cooperation between managers and shareholders is needed. Debt has a function for management

activities that aim to reduce agency costs. Most managers prefer more debt which aims to improve the manager's performance and voting rights, reduce agency costs and increase corporate oversight. Managers who choose to use more debt than company capital to take over the opposite.

H<sub>2</sub> = Managerial ownership has a negative effect on debt policy.

### ***The Effect of Institutional Ownership on Debt Policy***

The existence of institutional investors has an important role in financial markets and has an effect on corporate governance. This is because institutional ownership has a good ability to collect and understand information about company performance so that it can reduce agency costs (Abobakr & Elgiziry, 2016). In several other cases, it is stated that institutional investors can act as a source of debt. They can help take corporate strategic decisions and reduce agency costs (Khan et al., 2015). Institutional shareholders have the ability and incentives to reduce managerial opportunism. In this condition, direct monitoring will be carried out for each investment in the portfolio which can increase monitoring costs. Institutional shareholders will choose to use debt as a monitoring tool rather than direct monitoring (Hayat et al., 2018). The results of research by Hayat et al. (2018), Abobakr and Elgiziry (2016), Ahmad et al. (2018), and Khan (2015) state that institutional ownership has a positive effect on debt policy. In several other cases, it is stated that institutional investors can act as a source of debt. They can help make strategic decisions for the company and reduce agency costs.

H<sub>3</sub> = Institutional ownership has a positive effect on debt policy.

### ***The Effect of Family Ownership on Debt Policy***

Companies with high family ownership will tend to like debt because it can reduce the risk of opposing takeovers. With a lower cost of debt, the founding family prefers to use debt rather than retain ownership of shares in the company. From several ownership structures, family ownership is the shareholder whose shares dominate but the founder does not participate in company management so that it can increase debt and encourage creditors to further tighten supervision and reduce the potential for opportunistic behavior by management (Gonzalez, 2013). This family involvement can help family companies to get debt by establishing social relationships and bonds between family members and lenders (Gottardo, 2016). With the involvement of the family in company ownership, the founding family does not want to lose control. To maintain control, the founding family can act as the majority or controlling shareholder (Kim & Sorensen, 1986). High family ownership requires the founding family to supervise the investment it owns and continue to supervise management which aims to reduce agency conflict. High family ownership will create a substitution effect and refuse to use debt (Lukens, 2016). Therefore, family ownership increases because family involvement in the company can increase debt policy. The results of research by Baek, et al. (2016), Gonzalez (2013), Gottardo (2016), and Lukens (2016) state that family ownership has a positive effect on debt policy. Family ownership does not want to use equity financing because it can reduce the percentage of family ownership. Companies with high family ownership will tend to like debt because it can reduce the risk of opposing takeovers. With a lower cost of debt, the founding family prefers to use debt rather than retain ownership of shares in the company.

H<sub>4</sub> = Family ownership has a positive effect on debt policy.

***The Effect of Foreign Ownership on Debt Policy is moderated by the Financial Constraint***

The existence of foreign ownership is considered important in developing country markets because foreign ownership can affect the company's capital structure. Shares owned by foreigners have easy access to various sources of external financing such as debt to meet company investments. With foreign ownership in their company, they have easy access to finance to make direct funding with foreign partners and of course the availability of foreign financial resources is greater and there is less risk of bankruptcy because the company has implemented international quality standards. Foreign ownership is the right tool to measure the financial constraints of a company in developing countries so that high foreign ownership can increase debt (Mertzanis, 2016). In fact, a subsidiary of a multinational company will find it easier to use external funds when cash flow decreases. This cash flow change is done because it does not show excessive sensitivity to cash flow and debt policy in investment decisions (Sembenelli and Schiantarelli, 1996). The results of research by Mertzanis (2016), and Sembenelli and Schiantarelli (1996) state that financial constraints can moderate foreign ownership of debt policy.

H<sub>5</sub>: Financial Constraint moderates the effect of foreign ownership on debt policy.

***The Effect of Managerial Ownership on Debt Policy is moderated by the Financial Constraint***

Large management ownership in the company allows for agency problems, namely the difference in interests between managers and shareholders. With large management ownership, the company will use external financing such as debt to finance company investment. Companies that use external financing will often face financial constraints. It can be proven that some companies have great management power, often face agency problems between shareholders and management. With great management power, there tends to be a lot of companies using a low or near zero proportion of debt. Companies with a small proportion of debt have the reason that the company has high profitability and sufficient sources of funds to meet company investment so that companies are less likely to use debt (Luo, et al., 2018). Companies use more debt and operating leases when the CEO strength index is below a certain threshold. If the CEO's power has exceeded the limit, the CEO's actions will tend to manipulate the capital structure for his personal interests so as to allow the company to use less debt and operating leases (Munir et al., 2017). The results of research by Luo, et al. (2018) and Munir et al. (2017) stated that financial constraints can moderate managerial ownership of debt policy.

H<sub>6</sub>: Financial Constraint moderates the effect of management ownership on debt policy.

***The Effect of Institutional Ownership on Debt Policy is moderated by the Financial Constraint***

Institutional investors can monitor the company's financial policies. In this case, monitoring requires high monitoring costs because of their diverse portfolios. Institutional investors can be considered blockholders because investors have the largest proportion of share ownership in companies that can carry out direct



monitoring aimed at reducing agency costs (Alvarez, 2016). The market expects the presence of institutional investors to influence corporate governance mechanisms and reduce financial constraints due to the high proportion of share ownership. This means that institutional investors have a motive for the benefits of private control, stock liquidity and low protection for investors. If the person involved in the decision shows weakness in monitoring so that it can damage the company value (over-investment or under-investment). Therefore, institutional ownership will tend to reduce financial constraints and increase corporate debt (La Porta et al., 2002, Leuz et al., 2003 & Nenova, 2003). The results of research by Alvarez (2016), La Porta et al. (2002), Leuz et al. (2003), and Nenova (2003) state that financial constraints can moderate institutional ownership of debt policy.

H<sub>7</sub>: Financial Constraint moderates the effect of institutional ownership on debt policy

### ***The Effect of Family Ownership on Debt Policy is moderated by the Financial Constraint***

Family ownership often faces greater financial constraints due to a high concentration of ownership. Although family ownership, there are often agency problems between owners and managers that can create conflicts in the relationship between controlling and minority shareholders, especially when ownership is concentrated. With a large shareholding of cash flow rights, family ownership has the power and incentive to divert resources out of the company at the expense of shareholders and the company does not profit. Therefore, family ownership will tend to increase cash flow investment and reduce external financing (Peruzzi, 2017). Family companies with low investment cash flow sensitivity are caused because there is no control mechanism and their family members are at the top of management. The existence of a family in the company has the flexibility to manage credit in the capital market and influence decision making. With family control as a corporate governance mechanism that aims to reduce financial constraints and free cash flow problems (Pindado, et al., 2011). Research results from Peruzzi (2017), Pindado et al. (2011) stated that financial constraints can moderate family ownership of debt policies.

H<sub>8</sub>: Financial Constraint moderates the effect of family ownership on debt policy.

## **Methods**

### ***Population and Sample Research***

The population in this study are non-financial companies listed on the Indonesia Stock Exchange (BEI) 2015-2019. This object was chosen to determine the formation of the capital structure during the last 5 years. Because the capital structure of non-financial companies can be measured compared to investment companies. While the sampling method used is by using purposive sampling technique. The following are some of the sample considerations or criteria used in the study, namely companies that are not included in the financial sector; companies that publish financial reports for 2015-2019; does not include companies that did IPO (Initial Public Offering) and went bankrupt between 2015-2019 and companies at least 4 years old so that a sample was obtained after being selected using a sampling technique of 257 companies.

### ***Types of Data and Data Sources***

In the study, using data from the company's annual financial statements from 2015-2019. The type of research data is panel data (pooled data). Panel data (pooled data) is a combination of time series and cross section data. This data can be obtained from the Indonesia Stock Exchange (IDX) through the website www.idx.co.id or the company's official website.

### *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) and Debt to Asset Ratio (DAR). Debt to Equity Ratio (DER), which is the ratio of total debt to equity. This means how much the company's capital is funded by total debt (Lumapow, 2018). Debt to Asset Ratio (DAR), namely the ratio of total debt to total assets. That is, how much of the company's assets are funded by total debt (Husna et al., 2019).

$$\text{Debt (DER)} = \frac{\text{Total Debt}}{\text{Owners Equity}}$$

$$\text{Debt (DAR)} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

#### **Foreign Ownership**

Foreign ownership is the percentage of company share ownership by individual investors and foreign companies. Foreign ownership is proxied by the ratio of the number of shares owned by foreigners to the number of shares outstanding (Ahmad et al., 2018).

$$\text{Foreign Ownership (FOR)} = \frac{\text{the number of shares held by foreigners}}{\text{number of shares outstanding}}$$

#### **Managerial Ownership**

Managerial ownership is the percentage of share ownership by managers who take an active role in running the company. Managerial ownership is proxied by the ratio of the number of shares owned by the manager to the number of shares outstanding (Lumapow, 2018).

$$\text{Managerial Ownership (MAN)} = \frac{\text{the number of shares owned by management}}{\text{number of shares outstanding}}$$

#### **Institutional Ownership**

Institutional ownership is share ownership by institutions or institutions such as insurance companies, banks, investment companies and other financial sector ownership. Institutional ownership is proxied by the ratio of the number of shares owned by the institution to the number of shares outstanding (Tahir et al., 2020).

$$\text{Institutional Ownership (INST)} = \frac{\text{the number of shares owned by the institution}}{\text{number of shares outstanding}}$$

#### **Family Ownership**

Family ownership is the involvement of two generations in a family that has decision-making power that can affect company policy. Family ownership is proxied by the

ratio of the number of family shares to the number of shares outstanding (Donnelley, 1964).

$$\text{Family Ownership (FAM)} = \frac{\text{the number of shares owned by the family}}{\text{number of shares outstanding}}$$

### *Moderation Variable*

#### **Financial Constraints**

Financial constraints use the SA (Scale-Age) index which aims to measure financial constraints by considering company characteristics. The company's financial constraints are reduced if the size of the company is larger and the company's business has a longer operating period. Financial constraints are measured by the scale and age of the company (Hadlock & Pierce, 2010).

$$\text{Financial Constraints} = (-0.737TA) + (0.043TA^2) - (0.040LENGTH)$$

Note : TA = Total Assets

LENGTH = The length of time the company operates

### *Control Variable*

#### **Profitability**

Profitability shows the company's ability to earn profits in a certain period. Profitability is measured using the ratio of Earning After Tax (EAT) to total assets (Viriya, 2017).

$$\text{Profitability (PROF)} = \frac{\text{Earning After Tax}}{\text{Total assets}}$$

#### **Liquidity**

Liquidity shows how much the company's ability to meet short-term financial obligations. Liquidity is measured using the ratio of current assets to current liabilities (Dewiningrat et al., 2018).

$$\text{Liquidity (CR)} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

#### **Size**

Company size is one of the factors of a company's success. Companies that have a larger size are considered capable of facing a crisis in running their business. Company size is measured using the ratio of Ln (Log Natural) to the total value of total assets (Oktaviantari, 2019).

$$\text{Size (SIZE)} = \text{Ln}(\text{total assets})$$

## Findings

### *Descriptive Statistical Analysis*

Table 1. **Descriptive Statistics Test**

Variable	N	Mean	Std.Dev	Min	Max
Debt to Equity Ratio	1.285	1.185839	1.878083	-2.9873	2.2903
Debt to Asset Ratio	1.285	0.5341781	0.4994413	0	4.1159
Foreign Ownership	1.285	0.0007164	0.0027111	0	0.0236
Managerial Ownership	1.285	0.0332505	0.1123757	0	0.7001
Institutional Ownership	1.285	0.1270252	0.2367059	0	0.9831
Family Ownership	1.285	0.0349679	0.1173844	0	0.8047
Dummy Financial Constraints	1.285	0.9922179	0.0879065	0	1
Return On Asset	1.285	0.042799	0.15173	-0.5556	0.9346
Current Ratio	1.285	5.202369	15.28115	0.0165	5.6964
Size	1.285	14.97511	1.597935	11.3095	18.4181

Source: Processed Data, 2020

Based on the table, it is obtained an overview of the condition of the company regarding the average value, minimum value, and maximum data. The high deviation value from the average indicates the high spread of the data, which means the high difference between the minimum and maximum data values. On the other hand, the low value of the deviation from the average indicates a low data distribution, which means that the minimum and maximum value of the data is not too far apart.

### *Correlation Test*

Table 2. **Correlation Test**

	Debt to Equity Ratio	Debt to Asset Ratio	Foreign Ownership	Managerial Ownership	Institutional Ownership	Family Ownership	Financial Constraints	Return On Asset	Current Ratio	Size
Debt to Equity Ratio	1000									
Debt to Asset Ratio	0.1560	1000								
Foreign Ownership	0.1037	-	1000							
Managerial Ownership	0.1129	-	0.0387	1000						
Institutional Ownership	0.0401	-	-0.0762	-0.0490	1000					
Family Ownership	0.0412	-	-0.0292	0.2216	-0.0451	1000				
Financial Constraints	-0.0653	0.0175	0.0139	0.0002	-0.0252	0.0164	1000			
Return On Asset	-0.0653	-	-0.0191	-0.0332	0.0147	-0.0346	-0.0712	1000		
Current Ratio	-0.0799	-	-0.0233	-0.0179	-0.0244	0.0007	0.0208	-0.020	1000	
Size	0.1229	-	-0.0812	-0.1034	0.0479	-0.1028	-0.1886	0.707	-0.0609	1000

Source: Processed Data, 2020

Based on the results of data processing in table 4.2, it can be seen that in column VII financial constraints and company size have a weak negative relationship level of -0.1886, column V institutional ownership and company size variables have a moderate positive relationship level of 0.0479, column IV managerial ownership and family ownership variable have a strong positive relationship level of 0.2216.

**Panel Data Regression Model Estimation**

**Selection of Common Effect and Fixed-Effect Model Estimation**

To determine the most suitable model for panel data regression between common effect and fixed-effect models, use the Chow test. The results of the Chow test can be seen in tables 4.3 and 4.4 as follows:

Table 3. **Fixed-Effect Test**

Fixed effect (within) regression		Number of obs = 1.285				
Group variabel : code		Number of groups = 257				
		F (8,1020) = 8.95				
		Prob > F = 0.0000				
Debt to Equity Ratio	Coef	Std. Error	T	P>t	(95% Conf. Interval)	
Foreign Ownerhip	43.12351	20.18271	2.14	0.033	3.519139	82.72788
Managerial Ownership	0.707335	.5402955	1.31	0.191	-0.3528828	1.767553
Institutional Ownership	0.4098479	0.2487204	1.65	0.100	-0.0782143	0.8979101
Family Ownership	0.7516854	0.5426119	1.39	0.166	-0.3130779	1.816449
Dummy Financial Constraint	-5.410175	1.196901	-4.52	0.000	-7.758845	-3.061505
Return On Asset	-0.0001712	0.3528369	-0.00	1.000	-0.6925403	0.6921979
Current Ratio	0.0004336	0.0035976	0.12	0.904	-0.0066259	0.0074932
Size	0.350148	0.0718128	4.88	0.000	0.2092303	0.4910656
Cons	1.1754	1.80466	0.65	0.515	-2.365871	4.716672

Source: Processed Data, 2020

From the results of the Chow test in table 4.3, the results show that Prob> F (0.0000) < α value (5%), so the fixed effect model is better than the common effect model.

Table 4. **Fixed-Effect Test**

Fixed effect (within) regression		Number of obs = 1.285				
Group variabel : code		Number of groups = 257				
		F (8,1020) = 20.15				
		Prob > F = 0.0000				
Debt to Asset Ratio	Coef	Std. Error	T	P>t	(95% Conf. Interval)	
Foreign Ownership	3.363604	4.625241	0.73	0.467	-5.712472	12.43968
Managerial Ownership	-.0687198	0.1238187	-0.56	0.579	-.3116884	0.1742487
Institutional Ownership	-0.0398005	0.0569989	-0.70	0.485	-0.151649	0.072048
Family Ownership	0.209136	.1243496	1.68	0.093	-.0348742	.4531463
Dummy Financial Constraint	-1.070072	0.2742921	-3.90	0.000	-1.608313	-.5318302
Return On Asset	-0.0603154	0.0808591	-0.75	0.456	-0.2189846	0.0983538
Current Ratio	-0.0005072	0.0008245	-0.62	0.539	-0.002125	0.0011106
Size	-0.2043418	0.0164572	-12.42	0.000	-0.2366357	-0.1720479
Cons	4.6588	0.4135714	11.26	0.000	3.847252	5.470348

Source: Processed Data, 2020

From the results of the Chow test in table 4.4, the results show that Prob> F (0.0000) <  $\alpha$  value (5%), so the fixed effect model is better than the common effect model.

**Selection of Fixed Effect and Random Effect Model Estimation**

To determine the most suitable model for panel data regression between fixed effect and random effect models, use the Hausman test. The results of the Hausman test can be seen in table 4.5 as follows:

Table 5. **Hausman Test**

	Coefficient		
	(b) Fixed	(B) random	(b-B) Difference
Foreign Ownership	0.7534716	3.363604	-2.610132
Managerial Ownership	-0.1828637	-0.0687198	-0.1141438
Institutional Ownership	-0.0613324	-0.0398005	-0.0215319
Family Ownership	0.0503113	0.209136	-0.1588247
Dummy Financial Constraint	-0.3864936	-1.070072	0.6835779
Return On Asset	0.0003587	-0.0603154	0.060674
Current Ratio	-0.0016754	-0.0005072	-0.0011682
Size	-0.0961562	-0.2043418	0.1081856
Chi (8) =	-158.34		
Prob > chi(8)=	0.000		

Source: Processed Data, 2020

From the results of the Hausman test in table 4.5, the prob value> chi2 is smaller than the significance level of 0.05, so the fixed effect model is better than the random effect.

**Panel Data Regression Model**

The model used in this study uses the panel data regression analysis technique is an analysis to determine the influence of the independent variables, moderation and control on the dependent variable, namely debt policy. The results of panel data regression analysis are presented in table 4.6 as follows:

Table 6. **Panel Data Regression**

<b>Number of obs</b>	<b>= 1.285</b>	<b>R-Squared</b>	<b>= 0.0699</b>
<b>F (11, 1273)</b>	<b>= 8.70</b>	<b>Adj R-Squared</b>	<b>= 0.0619</b>
<b>Prob&gt;F</b>	<b>= 0.0000</b>	<b>Root MSE</b>	<b>= 1.819</b>

  

<b>Debt to Equity Ratio</b>	<b>Coef</b>	<b>Std. Error</b>	<b>T</b>	<b>P&gt;t</b>	<b>(95% Conf. Interval)</b>	
Foreign Ownership	8.818694	25.03952	0.35	0.725	-40.30457	57.94195
Managerial Ownership	2.175225	0.6474834	3.36	0.001	0.9049728	3.445477
Institutional Ownership	0.4134554	0.2216132	1.87	0.062	-0.0213119	0.8482226
Family Ownership	0.856721	0.7796404	1.10	0.272	-.6728003	2.386242
Foreign Ownership x Financial Constraint	-2.350626	0.5584767	-4.21	0.000	-3.446262	-1.25499
Managerial Ownership x Financial Constraint	0.0339121	0.1081544	0.31	0.754	-0.1782684	0.2460926
Institutional Ownership x Financial Constraint	0.0044617	0.0054163	0.82	0.410	-0.0061642	0.0150877
Family Ownership x Financial Constraint	0.0959168	0.190266	0.50	0.614	-0.2773527	0.4691862
Return On Asset	-.9133233	0.336127	-2.72	0.007	-1.572747	-0.2538995
Current Ratio	-.0082732	0.0033321	-2.48	0.013	-.0148102	-.0017362
Size	0.1713956	0.0325111	5.27	0.000	0.1076144	0.2351768
Cons	-1.466485	0.4939925	-2.97	0.003	-2.435614	-0.497356

Source: Processed Data, 2020

The equation above can be interpreted as follows:

$$\begin{aligned}
 DER_{it} &= \alpha + \beta_1 FOR_{it} + \beta_2 MAN_{it} + \beta_3 INST_{it} + \beta_4 FAM_{it} \\
 &\quad + \beta_5 FOR.FC_{it} + \beta_6 MAN.FC_{it} + \beta_7 INST.FC_{it} \\
 &\quad + \beta_8 FAM.FC_{it} + \beta_9 ROA + \beta_{10} CR + \beta_{11} SIZE + \varepsilon \\
 DAR_{it} &= \alpha + \beta_1 FOR_{it} + \beta_2 MAN_{it} + \beta_3 INST_{it} + \beta_4 FAM_{it} \\
 &\quad + \beta_5 FOR.FC_{it} + \beta_6 MAN.FC_{it} + \beta_7 INST.FC_{it} \\
 &\quad + \beta_8 FAM.FC_{it} + \beta_9 ROA + \beta_{10} CR + \beta_{11} SIZE + \varepsilon
 \end{aligned}$$

**Coefficient of Determination (R Square)**

Table 7. R Square Test (*Debt to Equity Ratio*)

Number of obs	=	1.285	R-Squared	=	0.0581
F (11, 1276)	=	9.84	Adj R-Squared	=	0.0522
Prob>F	=	0.0000	Root MSE	=	1.8284

  

Debt to Equity Ratio	Coef	Std. Error	T	P>t	(95% Conf. Interval)	
Foreign Ownership	78.1168	18.97286	4.12	0.000	40.89538	115.3382
Managerial Ownership	1.903983	0.4682237	4.07	0.000	0.9854105	2.822556
Institutional Ownership	0.3774365	0.2168183	1.74	0.082	-.047923	0.802796
Family Ownership	0.5393115	0.448158	1.20	0.229	-0.3398959	1.418519
Dummy Financial Constraint	-.9439212	0.5923378	-1.59	0.111	-2.105984	0.2181417
Return On Asset	-.9356876	0.3380235	-2.77	0.006	-1.59883	-0.2725448
Current Ratio	-.0081403	0.0033492	-2.43	0.015	-0.0147109	-0.0015697
Size	0.1621738	0.03303	4.91	0.000	0.0973748	.2269728
Cons	-0.4098362	0.8403505	-0.49	0.626	-2.058457	1.238784

Source: Processed Data, 2020

The model for the debt to equity ratio (DER) results in the large percentage of foreign ownership, managerial ownership, institutional ownership, family ownership, financial constraints, return on assets, current ratio and company size simultaneously to the debt to equity ratio (DER), indicated by the R Square value of 0.0581. . This means that 5.81% debt to equity ratio (DER) is influenced by foreign ownership, managerial ownership, institutional ownership, family ownership, financial constraints, return on assets, current ratio and company size while the remaining 94.19% is influenced by other variables not included in this research model.



Table 8. R Square Test (*Debt to Asset Ratio*)

<b>Number of obs</b>	<b>= 1.285</b>	<b>R-Squared</b>	<b>= 0.0353</b>
<b>F (11, 1276)</b>	<b>= 5.83</b>	<b>Adj R-Squared</b>	<b>= 0.0292</b>
<b>Prob&gt;F</b>	<b>= 0.0000</b>	<b>Root MSE</b>	<b>= 0.49209</b>

  

<b>Debt to Asset Ratio</b>	<b>Coef</b>	<b>Std. Error</b>	<b>T</b>	<b>P&gt;t</b>	<b>(95% Conf. Interval)</b>	
Foreign Ownership	-3.07468	5.10621	-0.60	0.547	-13.09217	6.94281
Managerial Ownership	-.1827029	0.1260141	-1.45	0.147	-0.4299206	0.0645148
Institutional Ownership	-.1397217	0.0583528	-2.39	0.017	-0.2541997	-0.0252437
Family Ownership	-.162325	0.1206138	-1.35	0.179	-0.3989482	0.0742982
Dummy	0.0070286	0.1594173	0.04	0.965	-.3057202	.3197773
Financial Constraint	-.1154751	0.0909731	-1.27	0.205	-0.2939484	0.0629981
Return On Asset	-.1154751	0.0909731	-1.27	0.205	-0.2939484	0.0629981
Current Ratio	-.004879	0.0009014	-5.41	0.000	-.0066474	-.0031107
Size	-.0266006	0.0088894	-2.99	0.003	-0.0440401	-0.0091611
Cons	0.9875775	0.2261655	4.37	0.000	0.5438803	1.431275

Source: Processed Data, 2020

The model for the debt to asset ratio (DAR) results in the large percentage of foreign ownership, managerial ownership, institutional ownership, family ownership, financial constraints, return on assets, current ratio and company size simultaneously to the debt to asset ratio (DAR), indicated by the R Square value of 0.0353. . That is, 3.53% debt to asset ratio (DAR) is influenced by foreign ownership, managerial ownership, institutional ownership, family ownership, financial constraints, return on assets, current ratio and company size while the remaining 96.47% is influenced by other variables not included in this research model.

**Hypothesis Testing Results**  
**Variable Test Results *Debt to Equity Ratio (DER)***

Table 9. Hypothesis test (*Debt to Equity Ratio*)

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
Foreign Ownership	-	-	-	-	8.834 (25.03)
Managerial Ownership	-	-	-	-	2.149*** (0.647)
Institutional Ownership	-	-	-	-	0.406* (0.222)
Family Ownership	-	-	-	-	0.865 (0.779)
Financial Constraint	-	-	-	-	-0.927 (0.589)
Foreign Ownershipx Financial Constraint	-2.409*** (0.424)	-	-	-	-2.347*** (0.558)
Managerial Ownershipx Financial Constraint	-	-0.230*** (0.0757)	-	-	0.0313 (0.108)
Institutional Ownership x Financial Constraint	-	-	0.00287 (0.00541)	-	0.00433 (0.00541)
Family Ownershipx Financial Constraint	-	-	-	-0.143 (0.107)	0.0987 (0.190)
Return On Asset	-0.968*** (0.338)	-0.929*** (0.341)	-0.957*** (0.343)	-0.952*** (0.342)	-0.945*** (0.337)
Current Ratio	-0.00882*** (0.00335)	-0.00886*** (0.00338)	-0.00908*** (0.00340)	-0.00904*** (0.00339)	- 0.00823** (0.00333)
Size	0.157*** (0.0322)	0.157*** (0.0327)	0.146*** (0.0326)	0.152*** (0.0329)	0.162*** (0.0330)
Constant	-1.103** (0.486)	-1.107** (0.494)	-0.906* (0.491)	-1.019** (0.498)	-0.402 (0.837)
Observations	1.285	1.285	1.285	1.285	1.285
R-squared	0.050	0.033	0.027	0.028	0.072
Value F	16.97	11.05	8.75	9.14	8.19
Value F	0.0000	0.0000	0.0000	0.0000	0.0000

Standard errors in parentheses  
 \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Source: Processed Data, 2020

**Variable Test Results *Debt to Asset Ratio (DAR)***

Table 10. Hypothesis test (*Debt to Asset Ratio*)

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
Foreign Ownership	-	-	-	-	-3.779 (6.779)
Managerial Ownership	-	-	-	-	-0.284 (0.175)
Institutional Ownership	-	-	-	-	-0.137** (0.0600)
Family Ownership	-	-	-	-	0.00646 (0.211)
Financial Constraint	-	-	-	-	0.00561 (0.160)
Foreign Ownershipx Financial Constraint	0.0175 (0.114)	-	-	-	-0.0212 (0.151)
Managerial Ownershipx Financial Constraint	-	0.0195 (0.0202)	-	-	-0.0261 (0.0293)
Institutional Ownershipx Financial Constraint	-	-	0.00156 (0.00144)	-	0.000929 (0.00147)
Family Ownershipx Financial Constraint	-	-	-	0.0520* (0.0283)	0.0535 (0.0515)
Return On Asset	-0.110 (0.0910)	-0.113 (0.0910)	-0.106 (0.0910)	-0.115 (0.0909)	-0.112 (0.0912)
Current Ratio	-0.00478*** (0.000903)	-0.00479*** (0.000903)	-0.00478*** (0.000902)	-0.00479*** (0.000902)	-0.00488*** (0.000902)
Size	-0.0247*** (0.00867)	-0.0256*** (0.00871)	-0.0246*** (0.00865)	-0.0270*** (0.00873)	-0.0272*** (0.00895)
Constant	0.934*** (0.131)	0.950*** (0.132)	0.933*** (0.130)	0.974*** (0.132)	0.999*** (0.227)
Observations	1.285	1.285	1.285	1.285	1.285
R-squared	0.027	0.028	0.028	0.030	0.037
Value F	9.05	9.28	9.35	9.91	4.05
Value F	0.0000	0.0000	0.0000	0.0000	0.000

Standard errors in parentheses  
 \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Source: Processed Data, 2020

***The Effect of Foreign Ownership on Debt Polic***

Based on the table 4.9 and 4.10, it can be seen that the significance value of foreign ownership is 25.03 and 6.77, where the significance value is greater than alpha, namely 0.05. The decision taken is accepted. This means that there is no significant effect of foreign ownership on the debt to equity ratio (DER) and the debt to asset ratio

(DAR). This shows that foreign ownership has no effect on debt policy. This result is in accordance with Lee's (2008) research which states that foreign ownership has no effect on debt policy. This finding contradicts agency theory, the high level of foreign ownership can control company management policies. Foreign investors who are in a company management position can control the company, arrange for management to be more careful in debt so as to reduce agency costs. In addition, Peilouw's research (2017) states that foreign ownership has no effect on debt policy. In his research, it shows that the proportion of foreign share ownership is not too large and most companies have more than one foreign ownership.

### ***The Effect of Managerial Ownership on Debt Policy***

Based on the table 4.9 and 4.10, it can be seen that the significance value of managerial ownership is 0.64 and 0.176 where the significance value is greater than alpha, namely 0.05. The decision taken is accepted. This means that there is no significant effect of managerial ownership on the debt to equity ratio (DER) and the debt to asset ratio (DAR). This is in accordance with the results of research by Grossman and Hart (1982) which states that company managers do not have a strong incentive to maximize profits because the debt owned by the company is close to zero. In addition, the company also comes under less pressure from creditors' surveillance or potential bankruptcy. This contradicts the agency theory which states that the existence of managerial ownership can reduce agency problems among several claims against within the company. Agency theory, which was first introduced by Jensen & Meckling (1976), revealed that one way to minimize conflict in a company is to increase share ownership by managers. Increasing managerial ownership will have an impact on debt. The amount of managerial ownership will reduce the proportion of debt use. In addition, managerial share ownership will encourage management to optimize in using debt to reduce agency costs (Lumapow, 2018). However, it is different from the research results of Fayeze (2019) and Le et al. (2017) show that managerial ownership has a positive effect on debt policy. Fayeze (2019) states that managers try to maintain and increase supervision of companies where managers are in charge of making decisions and benefits for themselves. Meanwhile, the role of debt can be used as a tool to avoid dilution. Increasing corporate debt will actually help managers to strengthen supervision and prevent takeovers from outside investors. More debt is used by managers as a positive signal to signal a sale of assets. In addition, high debt, in fact, managers will use more cash to pursue suboptimal investment for their personal interests (Le et al., 2017).

### ***The Effect of Institutional Ownership on Debt Policy***

Based on the table 4.9 and 4.10, it can be seen that the significance value of institutional ownership is 0.222 and 0.060, where the significance value is greater than alpha, namely 0.05. The decision taken is accepted. This means that there is no significant effect of institutional ownership on the debt to equity ratio (DER) and the debt to asset ratio (DAR). The results of research by Hasan and Butt (2009) and Grier and Zychowicz (1994) state that institutional ownership has no effect on debt policy. They stated that there was a lack of corporate governance practices in their country. However, it is different from the research results of Lukens (2016) and Tahir et al.

(2020) stated that institutional ownership has a negative effect on debt policy. Institutional shareholders can play a substitute role in the role of supervisory and debt discipline. This means that institutional shareholders strengthen supervision aimed at reducing the use of debt. Having debt can be used as a positive signal for outsiders regarding the company's performance. A good company is indicated by the company using more debt because the company has a better financing ability. In addition, the existence of this institutional ownership is a positive signal for investors because investors can carry out direct monitoring, discipline management, and increase firm value (Ross, 1977).

### *The Effect of Family Ownership on Debt Policy*

Based on the table 4.9 and 4.10, it can be seen that the significance value of family ownership is 0.779 and 0.211, where the significance value is greater than alpha, namely 0.05. The decision taken is accepted. This means that there is no significant effect of family ownership on the debt to equity ratio (DER) and the debt to asset ratio (DAR). This shows that family ownership has no effect on debt policy. The family as the majority shareholder can use the level of control they have to obtain personal benefits from the burden borne by minority shares. Family companies often have disputes of interest between majority shareholders and minority shareholders. The existence of this dispute of interest is because the majority shareholder has strong control over the company (Rebecca & Siregar, 2013). Claessens, et al. (1999) stated that this control is exercised through a pyramid structure and cross-holding among several companies. This model is very common in all countries in Southeast Asia, including Indonesia.

### *The Effect of Foreign Ownership on Debt Policy as moderated by the Financial Constraint*

Based on the table 4.9 and 4.10, it can be seen that the significance value of foreign ownership on debt policy moderated by financial constraints is 0.558 and 0.151 where the significance value is smaller than alpha, namely 0.05. The decision taken is accepted. This means that there is no significant effect of foreign ownership on the debt to equity ratio (DER) and debt to asset ratio (DAR) which is moderated by financial constraints. This is consistent with the results of research by Colombo (2001) which states that the relationship between financial constraints cannot moderate foreign ownership of the debt to equity ratio (DER) and the debt to asset ratio (DAR). Foreign companies have financial constraints to achieve optimal capital structure due to market imperfections. Market imperfections cause companies to be limited in achieving their optimal capital structure. This market imperfection occurs when companies experience financial constraints such as information asymmetry and agency costs. Market imperfections cause companies to be limited in achieving their optimal capital structure. However, in contrast to research by Mertzanis (2016) and Schianterelli (1996), financial constraints can moderate foreign ownership of debt policy. The results of Mertzanis's (2016) research show that the presence of foreign ownership will affect the company's capital structure. The high level of foreign ownership indicates that more and more companies are using debt to meet corporate investment. Investors who own shares in developing markets will find it easy to get various sources of funding such as debt. The greater the foreign ownership, the easier it will be for foreign investors to enter into finance and make direct funding with

foreign partners. In general, when a subsidiary of a multinational company experiences a decrease in cash flow, the company can use the external funds it receives from foreign partners to meet the company's investment. The change in cash flow is due to the absence of excessive sensitivity to cash flow and debt policy in investment decisions (Schianterelli, 1996).

***The Effect of Managerial Ownership on Debt Policy, which is moderated by the Financial Constraint***

Based on the table 4.9, it can be seen that the significance value of foreign ownership is 0.108 where the significance value is greater than alpha, namely 0.05. The decision taken is accepted. This means that financial constraints cannot moderate managerial ownership of the debt to equity ratio (DER). This is in accordance with the research of Shibata and Nishihara (2018) which states that financial constraints cannot moderate managerial ownership of debt policy. The company makes investment decisions that are limited by the use of debt-based on its liquidity. First, there is a limit on the issuance of debt, which does not necessarily mean that companies delay investment. Second, determining how much to invest does not affect the ceiling. Third, the upper limit can change strategy when the company experiences financial difficulties through changes in the capital structure. Fourth, the upper limit causes changes in debt that were initially risky to become riskless. Fifth, the upper limit can reduce debt, allow the use of credit, and the possibility of default. However, in contrast to the research results of Luo, et al. (2018) and Munir et al. (2017) stated that financial constraints can moderate managerial ownership of debt policy. The high use of debt can cause agency problems between shareholders and management. With great management strength, the company will reduce the use of debt because the company has abundant sources of funds to meet the company's investment.

Based on the table 4.10, it can be seen that the significance value of foreign ownership is 0.0293 where the significance value is smaller than alpha, namely 0.05. The decision taken is rejected. This means that financial constraints can moderate managerial ownership of the debt to asset ratio (DAR). This is consistent with research by Luo et al. (2018) which states that financial constraints can moderate managerial ownership of debt policy. With high managerial ownership, the company will use less debt. Debt is widely used by companies to reduce agency problems between shareholders and management. With great management power, the company will tend to use less debt to meet the company's investment because the company has abundant sources of funds. This is similar to the research of Munir et al. (2017) stated that financial constraints can moderate managerial ownership of debt policy. Companies use more debt and operating leases when the CEO strength index is below a certain threshold. If the CEO's power has exceeded the limit, the CEO's actions tend to manipulate the capital structure for his personal gain, allowing the company to use less debt and operating leases.

***The Effect of Institutional Ownership on Debt Policy, which is moderated by the Financial Constraint***

Based on the table 4.9 and 4.10, it can be seen that the significance value of institutional ownership on debt policy which is moderated by financial constraints is 0.00541 and 0.00147 where the significance value is smaller than alpha, namely 0.05.

The decision taken is rejected. This means that there is a significant effect of foreign ownership on the debt to equity ratio (DER) and debt to asset ratio (DAR) which is moderated by financial constraints. This is in accordance with the research of Alvarez et al. (2016) financial constraints can moderate institutional ownership of debt policy. Institutional investors have a relationship with financial constraints because institutional investors can monitor the company's financial policies. This monitoring must be carried out because institutional investors have diverse portfolios so that companies have to pay high monitoring costs to oversee their assets. The existence of institutional investors is often considered a blockholder because it has the largest proportion of share ownership who can carry out direct monitoring aimed at reducing agency costs. This is similar to the research of La Porta et al. (2002), Leuz et al. (2003), and Nenova (2003) state that financial constraints can moderate institutional ownership of debt policy. The presence of institutional investors is always expected by the market because they can influence corporate governance mechanisms and reduce financial constraints. Institutional investors also have private control motives, stock liquidity, and low protection for investors. If the person involved in the decision shows weakness in monitoring that can damage the company's value. Therefore, institutional ownership will tend to reduce financial constraints and increase corporate debt. However, in contrast to the research of Edmans and Manso (2011), financial constraints cannot moderate institutional ownership of debt policy. Most of the companies held by small-block shareholders were unable to coordinate to limit wants and combine the profits they got. To encourage debt discipline and high managerial enhancement, institutional investors transact in a competitive manner and enter information into prices. This is done to improve debt discipline and encourage high managerial efforts.

*The Effect of Family Ownership on Debt Policy, which is moderated by the Financial Constraint*

Based on the table 4.9 and 4.10, it can be seen that the significance value of foreign ownership on debt policy which is moderated by financial constraints is 0.190 and 0.0515, where the significance value is greater than alpha, namely 0.05. The decision taken is accepted. This means that financial constraints cannot moderate managerial ownership of the debt to equity ratio (DER) and the debt to asset ratio (DAR). This is in accordance with the research of Gugler (2003) and Hung and Kuo (2011) which state that financial constraints cannot moderate family ownership of debt policy. Family firms often encounter bad financial constraints because owners try to maximize shareholder wealth. The increase in investment cash flow with the alignment of managerial incentives indicates that the company has better investment opportunities. The existence of high managerial incentive alignment makes it difficult for companies to access information from the capital market. This can increase information asymmetry, meaning that companies have difficulty obtaining information from the capital market. Therefore, it would be better for managers and company owners to give up their investment rather than having to sell the securities below their price. However, it is different from the results of Peruzzi's (2017) research which states that financial constraints can moderate family ownership of debt policy. Family companies often experience founding involvement in the company. This can occur because the family has the power and incentives to manage the resources out of the company

where this action can harm shareholders and the company. Therefore, high family ownership of the company tends to reduce the use of debt.

## **Conclusion**

Based on the results of the research, it can be concluded that foreign investors who are in management positions can control the company, manage management to be more careful in debt so as to reduce agency costs. For company managers do not have a strong incentive to maximize profits because the debt owned by the company is close to zero and managers also get a little pressure from creditors' supervision. Institutions pay less attention to the implementation or practices of corporate governance. The existence of institutional investors cannot play a role as a substitute (substitute) in the role of supervisory and debt discipline. For family companies, there are often disputes of interest between majority and minority shareholders. This is because the majority shareholder has strong control over the company. This control is exercised through a pyramid structure and cross ownership among several companies. Foreign companies have financial constraints to achieve optimal capital structure due to market imperfections. Market imperfections cause companies to be limited in achieving their optimal capital structure. This market imperfection occurs when companies experience financial constraints such as information asymmetry and agency costs. The company makes investment decisions that are limited by the use of debt based on its liquidity. First, the existence of a limit on the issuance of debt which does not always delay the company investment. Second, determining how much to invest does not affect the ceiling. Third, the upper limit can change strategy when the company experiences financial difficulties through changes in capital structure. Fourth, the upper limit causes changes in debt that were initially risky to become riskless. Fifth, the upper limit can reduce debt, allow the use of credit and the possibility of default. Institutional investors have a relationship with financial constraints because institutional investors can monitor the company's financial policies. This monitoring must be carried out because institutional investors have diverse portfolios so that companies have to pay high monitoring costs to oversee their assets. The existence of institutional investors is often considered blockholders because they have the largest proportion of share ownership who can carry out direct monitoring aimed at reducing agency costs. Family companies often encounter bad financial constraints because owners try to maximize shareholder wealth. The increase in investment cash flow with the alignment of managerial incentives indicates that the company has better investment opportunities. The existence of high managerial incentive alignment makes it difficult for companies to access information from the capital market. This can increase information asymmetry, meaning that companies have difficulty obtaining information from the capital market. Therefore, it would be better for managers and company owners to give up their investment rather than having to sell the securities below their price.

## **Limitation and Future Research**

This study has limitations, namely that the number of observations is not limited to non-financial companies listed on the IDX with a longer period of time so that future studies are expected to have more and more representative research samples. This



study only uses the SA index (company scale and age), which is to measure financial constraints based on the scale and age of the company. Future researchers are expected to be able to add other variables which are predicted to be able to influence government ownership debt policy, for example good corporate governance, ultimate ownership, concentration ownership or other variables. Other researchers can also use other indices to measure financial constraints such as the WWW index, KZ index, or ACSL index.

## References

- Abobakr, M., & Elgiziry, K. (2016). The Effect of Board Characteristics and Ownership Structure on The Financial Leverage. *Accounting and Finance Research*, 5(1), 1-14. doi:10.5430/afr.v5n1p1.
- Alvarez, R., Bertin, M.J., & Pombo, C. (2016). Do Institutional Investors unbind firm financial constraints? Evidence from emerging markets. doi:10.2139/ssrn.2844345.
- Ahmad, H., Akhter, N., Siddiq, T., & Iqbal, Z. (2018). Ownership Structure, Corporate Governance and Capital Structure of Non-Financial Firms of Pakistan. *Information Management and Business Review*, 10(1), 31-46. doi:10.22610/imbr.v10i1.2146.
- Anderson, R., & Reeb, D. (2003). Founding family ownership corporate diversification, and firm leverage. *Journal of Law and Economics*, 46(2), 653–684. doi:10.1016/S0304-405X(03)00067-9.
- Ayuningtyas, D. (2019, July 5). Obligasi BUMN Konstruksi Tembus Rp24 T, Siapa paling gede?. Retrieved from <https://www.cnbcindonesia.com/market/20190705105511-1782889/obligasi-bumn-konstruksi-tembus-rp-24-t-siapa-paling-gede>.
- Baek, H.Y., Cho, D.D., & Fazio, P.L. (2016). Family ownership, control and corporate capital structure: an examination of small capitalization public firms. *Journal of Family Business Management*, 6(2), 1-29. doi: 10.1108/JFBM-02-2015-0006.
- Claessens, S., Lang, H.P., & Djankov, S. (2000). The separation of Ownership and Control in East Asian Corporations. *Journal of Financial Economics*, 58(1-2), 81-112. doi:10.2139/ssrn.206448.
- Colombo, E. (2001). Determinants of Corporate Capital Structure: Evidence from Hungarian Firms. *Applied Economics*, 33, 1689–1701. doi:10.1080/00036840010015057.
- Dewiningrat, A. I., I, K.M. (2018). The Effect of Liquidity, Profitability, Sales Growth, and Asset Structure on Capital Structure. *E-Jurnal Manajemen Universitas Udayana*, 7(7), 3471-3501. doi:10.24843/EJMUNUD.2018.v7.i07.p2.
- Donnelley, R.G. (1964). The Family Business. *Harvard Business Review*, 42(4), 93-105.
- Edmans, A., & Manso, G.,(2011). Governance Through Trading and Intervention: A Theory of Multiple Blockholders. *Review of Financial Studies*, 24, 2395 – 2428. doi: 10.1093/rfs/.
- Endri, E., Mustafa, B., Reynandi, O. (2018). Determinants of Debt Policy of Real Estate and Property Companies Listed on The Indonesia Stock Exchange. *International Journal of Economics and Financial Issues*. 9(2) : 96-104.
- Fayez, M., Ragab, A.A., & Moustafasoliman, M. (2019). The Impact of Ownership Structure on Capital Structure: An Empirical Study on the Most Active Firms in the Egyptian Stock Exchange. *Open Access Library Journal*, 6, 1-13. doi:10.4236/oalib.1105266.

- Fazzari, S., Hubbard R.G., Petersen, B. (1988). Financing constraints and corporate investment, *Brookings Papers on Economic Activity*, 19 : 141-195.
- Gottardo, P., & Moissello, A.M. (2016). The Impact of Family Control and Influence on Leverage. *European Journal of Economics, Finance and Administrative Sciences*, 87, 5-24. ISSN : 1450-2275.
- Gonzalez, M., Gusman, A., Pombo, C., & Trujillo, M.A. (2013). Family firms and debt: Risk aversion versus risk of losing control. *Journal of Business Research*, 66, 2308–2320. doi:10.1016/j.jbusres.2012.03.014.
- Grier, P., & Zychowicz, E. J. (1994). Institutional investors, corporate discipline, and the role of debt. *Journal of Economics and Business*, 46(1), 1-11. doi: 10.1016/0148-6195(94)90017-5.
- Grossman, S.J., & Hart, O.D. (1982). Corporate Financial Structure and Managerial Incentives. In: *The Economics of Information and Uncertainty*. University of Chicago Press, 107-140. Retrieved from <http://www.nber.org/books/mcca82-1>.
- Gugler, K. (2003). Corporate Governance and Investment. *International Journal of the Economics of Business*, 10, 261– 289. doi: 10.1080/1357151032000126238.
- Gurunlu, M., & Gursoy, G. (2010). The Influence of Foreign Ownership on Capital Structure of Non-Financial Firms : Evidence from Istanbul Stock Exchange. *IUP Journal of Corporate Governance*, 9, 21-29.
- Hadlock, C.J., & Pierce, J.R. (2010). New Evidence on Measuring Financial Constraints: Moving Beyond the KZ Index. *The Review of Financial Studies*, 23(5), 1909-1940. Retrieved from <http://www.jstor.org/stable/40604834>.
- Hassan, A., & Butt, S.A. (2009). Impact of Ownership Structure and Corporate on Capital Structure of Pakistani Listed Companies. *International Journal of Business and Management*. 4(2). doi:10.5539/ijbm.v4n2p50.
- Hayat, M., Yu, Y., Wang, M., & Khalil, J. (2018). Impact of Managerial and Institutional Ownership on Capital Structure : A comparison between China and US. *European Journal of Business and Management*, 10(24), 69-84. ISSN : 2222-2839.
- Hung, J., & Y. Kuo (2011).The Effect of Family Control on Investment-Cash Flow Sensitivity. *Applied Financial Economics*, 21, 897–904. doi: 10.1080/09603107.2010.539533.
- Husna, A., & Satria, I. (2019). Effects of Return on Asset, Debt to Asset Ratio, Current Ratio, Firm Size, and Dividend Payout Ratio on Firm Value. *International Journal of Economics and Financial Issues*, 9(5), 50-55. doi:10.32479/ijefi.8595.
- Hussein, A.R., Sakr, A., & Barie, A.A. (2019). The Determinants of Capital Structure: Evidence from Egyptian Listed Firms. *Open Access Library Journal*, 6, 1-15. doi: 10.4236/oalib.1105671.
- Jensen, M.C., & Meckling, W.H. (1976). Theory of the firm: managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3, 305-360.
- Khan, J.S., Ahsan, S.M., & Malik, H.A. (2015). Impact of Ownership Structure on Dividend Policy and Capital Structure:Evidence from Non-Financial Sector of Pakistan. doi: 10.2139/ssrn.2866269.
- Kim, W.S., & Sorensen, E.H. (1986). Evidence on the Impact of the Agency Costs of Debt on Corporate Debt Policy. *Journal of Financial and Quantitative Analysis*, 21(2), 131-144. doi:10.2307/2330733.

- La Porta, R., López de Silanes, F., Shleifer, A., & Vishny, R. (2002). Investor protection and corporate valuation. *Journal of Finance*, 57(3), 1147 – 1170. doi:10.1111/1540-6261.00457.
- Le, T.P.V., & Kathy, T. (2017). Ownership Structure and Capital Structure : A Study of Vietnamese Listed Firms. *Australian Economic Papers*, 319-344. doi: 10.1111/1467-8454.12089.
- Lee, S. (2008). Ownership Structure And Financial Performance: Evidence From Panel Data Of South Korea, *Corporate Ownership and Control*. 6(2). doi: 10.22495/cocv6i2c2p1.
- Leuz, C., Nanda, D., & Wysocki, P., (2003). Earnings management and investor protection: an international comparison. *Journal of Financial Economics*, 69, 505 – 527. doi:10.1016/S0304-405X(03)00121-1.
- Lumapow, L.S. (2018). The Influence of Managerial Ownership and Firm Size On Debt Policy. *International Journal of Applied Business & International Management*, 3(1), 47 – 56. ISSN : 2621-2862.
- Lukens, K. (2016). The Influence Of Ownership Structure on the capital structure in Dutch Firms. *Master Thesis*. 1-65.
- Luo, S., Zhang, Y., & Zhou, G. (2018). Financial Structure and Financing Constraints: Evidence on Small- and Medium-Sized Enterprises in China. *Sustainability*, 10, 1-20. doi:10.3390/su10061774.
- Mertzanis, C. (2016). Ownership structure and access to finance in developing countries. *Applied Economics*, 1-20. doi: 10.1080/00036846.2016.1257106.
- Munir, Q., Kok, S.C., Teplova, & T., Li, T. (2017) Powerful CEOs, debt financing, and leasing in Chinese SMEs: Evidence from threshold model. *North American Journal Economic Finance*, 42, 487–503. doi: 10.1016/j.najef.2017.08.011.
- Myers, S.C., Majluf, N.S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics*.13(2) :187-221.
- Nenova, T., (2003). The Value of Corporate Voting Rights and Control: A Cross-country analysis. *Journal of Financial Economics*, 68, 325 – 351. doi: 10.1016/S0304-405X(03)00069-2.
- Oktaviantari, N.K.A., & Baskara, I.K.G. (2019). The Influence of Firm Size, Tangibility Assets and Managerial Ownership on Capital Structure In the Retail Subsector. *E-Jurnal Manajemen Udayana*, 8(6), 3843-3872. doi:10.24843/EJMUNUD.2019.v08.i06.p20.
- Peilouw, C.T. (2017). The Effect of Ownership Structure on Debt Policy in Companies Listed on the Indonesia Stock Exchange. *Jurnal Akuntansi dan Perpajakan*, 3(1), 1-10.
- Peruzzi, V. (2017). Does family ownership structure affect investment-cash flow sensitivity? Evidence from Italian SMEs. *Applied Economics*, 1-17. doi: 10.1080/00036846.2017.1282147.
- Pindado, J., & I. Requejo, C. De La Torre. (2011). Family Control and Investment-Cash Flow Sensitivity: Empirical Evidence from the Euro Zone. *Journal of Corporate Finance*, 17, 1389–1409. doi:10.1016/j.jcorpfin.2011.07.003.
- Pontoh, W. (2017). The Capital Structure : Is Debt just a policy or requirement?. *European Research Studies Journal*. 20 : 128-139.
- Quang, D., & Xin, W. (2013). Impact of Ownership Structure and Corporate Governance on Capital Structure: The case of Vietnamese Firms. *Australian Journal of Business and Management Research*, 9(3), 11-19.

- Rebecca, Y., & Siregar, S.V. (2013). The Effect of Corporate Governance Index, Family Ownership and Institutional Ownership on Equity Costs and Debt Costs: Empirical Studies on Manufacturing Companies Listed on the IDX. *Symposium Nasional Akuntansi (SNA)*, 15.
- Ross, S.A. (1977). The Determination of Financial Structure : the Incentive-Signaling Approach. *The Bell Journal of Economics*, 8(1), 23-40. Retrieved from <https://www.jstor.org/stable/3003485>.
- Safitri, L.A., Wulanditya, A. (2017). The effect of institutional ownership, managerial ownership, free cash flow, firm size and corporate growth on debt policy. *The Indonesian Accounting Review*, 7(2) : 141 – 154.
- Sembenelli, A., & Schiantarelli, F. (1996). Form of Ownership and Financing Constraints. *Working Paper No 1629*. Washington, DC: World Bank.
- Shahzad, F., Nazir, M.R., & Amin, W. (2017). Does Ownership Structure Impact on Capital Structure? *International Journal of Management, Accounting and Economics*, 4(6), 629-639. ISSN : 2383-2126.
- Shibata, T., & Nishihara, M. (2018). Management Investment Timing, Reversibility and Financing Constraints. *Journal of Corporate Finance*, 48, 771–796. doi:10.1016/j.jcorpfin.2017.12.024.
- Stryckova, L. (2019). Debt policy of companies in Czech Republic. *Journal of International Studies*, 12(3) : 183-197.
- Tahir, N., Hormati, A., & Zainuddin (2020). Ownership Structure, Free Cash Flow, Asset Structure and Dividend Policy On Debt Policy. *Journal Accountability*, 9(1), 28-35. doi: 10.32400/ja.27989.9.1.2020.28-35.
- Taran, A. (2019). Corporate Ownership and Capital Structure: Evidence From Romanian. *Eastern Journal of European Studies*, 10(1), 133-150. ISSN: 2068-6633.
- Thai, A. (2017). The Effect of Foreign Ownership on Capital Structure in Vietnam. *Review of Integrative Business and Economics Research*, 8(1), 20-32. ISSN: 2304-1013.
- Viriya, H., & Suryaningsih, R. (2017). Determinant of Debt Policy: Empirical Evidence from Indonesia. *Journal of Finance and Banking Review*, 2(1), 1 – 8. ISSN : 0128-3103.
- Vo, D.H., & Nguyen, V.T. (2014). Managerial Ownership, Leverage and Dividend Policies: Empirical Evidence from Vietnam's Listed Firms. *International Journal of Economics and Finance*, 6(5), 274-284. doi:10.5539/ijef.v6n5p274.
- Zhang, H., Zhang, Y., Zhou, S., & He, Y (2019). “Corporate Cash Holdings and Financial Constraints – An Analysis Based on Data on China at Company Level after the Global Financial Crisis”. *Emerging Markets Finance and Trade*, pp.1-14.