

# INTERNATIONAL JOURNAL of BUSINESS, MANAGEMENT and ECONOMICS

# IJBME

**BEST and HONORABLE  
MENTIONED PAPERS of  
ICBME'10**

**BEST PAPERS of ICBME'10**  
Alireza Bafandeh Zendeh, Mahdi Parvizpoor  
*A Mathematical Framework for Selecting a Suitable Organizational Structure  
(Case Study: Tabriz Machine Manufacturing Company)*

**BEST PAPERS of ICBME'10**  
Kvanç İnelmen, Ezgi Özgümüş, Gülnihal Parlak, Neşe Saltı, Hatice Sarot  
*The Effects of Career Commitment, Organizational Commitment and Trust on  
Organizational Citizenship Behaviors of Hospital and Hotel Employees*

**BEST PAPERS of ICBME'10**  
Mustafa Tepeci  
*The Effects of Person-Organization Fit on Employee Job Attitudes in the  
Hospitality Industry in Turkey*

**BEST PAPERS of ICBME'10**  
Agus Zainul Arifin  
*The Ownership Structure on the Capital Structure and the Firm Performance*

**BEST PAPERS of ICBME'10**  
Aydem Çiftçioğlu, Özér Arabacı  
*Implementing Simple Slope Techniques to Interaction of Work Variables*

**BEST PAPERS of ICBME'10**  
Erhan Yıldırım, Selim Çakmaklı  
*Recent Developments in Philips Curve*

**BEST PAPERS of ICBME'10**  
Musa Pınar, Sandy Strasser, Zeliha Eser  
*Examining the Impact of Customer and Personnel Gender on Service Quality in  
Banking Industry*

**BEST PAPERS of ICBME'10**  
VeySEL Ulusoy, Erdem Kılıç  
*Electricity Consumption and Spillover Effects – A Dynamic Panel Data Approach*

**BEST PAPERS of ICBME'10**  
Vit Bubáka, Evžen Kočenda, Filip Žíkš  
*Volatility Transmission in Emerging European Foreign Exchange Markets*

**BEST PAPERS of ICBME'10**  
Younos Vakil Alroaia, Akram Ziari  
*The Impact of Privatization on Increase of Production and Productivity: A Case  
of Iranian Public Sector*



**YASAR  
UNIVERSITY**

# INTERNATIONAL JOURNAL OF BUSINESS, MANAGEMENT AND ECONOMICS

Proprietor on behalf of Faculty of Economics and Administrative Sciences, Yaşar University

Orhan İçöz

Editor - In - Chief

Orhan İçöz

Associate Editors

Cengiz Pınar, Kulu Zoral, Edip Teker, Ö. Baybars Tek, İge Pınar, Musa Pınar, Çağrı Bulut

Assistant Editors

Bora Bodur, Şaban Çelik, Senem Yılmaz, Onur İçöz

## Editorial Office

International Journal of Business, Management and Economics Yaşar University, Faculty of Economics and Administrative Sciences, Üniversite Caddesi No: 35-37 Bornova-İzmir

Yaşar Üniversitesi Selçuk Yaşar Kampüsü Üniversite Caddesi, No:35-37, Ağaçlı Yol, Bornova, İzmir PK. 35100

Tel : 232-411 50 00 Fax: 232-411 50 20 e-mail: editor\_ijbme@yar.edu.tr

International Journal of Business, Management and Economics is a peer-reviewed international journal published three times a year in English. The Journal accepts articles that can be theoretical, applied, empirical, case - based or policy oriented in the areas of Business, Management, and Economics and other related fields.

## International Advisory Board

---

Aylin Güney	Faculty of Economics and Administrative Sciences, Yaşar University, Turkey
A. Güldem Çerit	Faculty of Maritime, Dokuz Eylül University, Turkey
Adnan Kaşman	Faculty of Business, Dokuz Eylül University, Turkey
Ahmet Fazıl Özsoylu	Faculty of Economics and Administrative Sciences, Cukurova University, Turkey
Akira Yokoyama	Graduate School of Policy Studies, Chuo University, Tokyo, Japan
Alican Kavas	School of Business and Economics, Winston Salem State University, Winston-Salem, USA
Anneli Andersson	Cinneuniversitetet, Kalmar, Sweden
Asım Yücel	Faculty of Economics and Administrative Sciences, Yaşar University, Turkey
Atilla Yaprak	School of Business Administration, Wayne State University, MI, USA
Başar Durukan	Faculty of Business, Dokuz Eylül University, Turkey
Cengiz Erd	Graduate School of Social Sciences, Izmir Economy University, Turkey
Cengiz Pınar	Faculty of Economics and Administrative Sciences, Yaşar University, Turkey
Cevat Taşhan	School of Tourism & Hotel Management, Mustafa Kemal University, Turkey
Ceyhun Özgür	College of Business Administration Faculty, Valparaiso University, Indiana, USA
Çağrı Bulut	Faculty of Economics and Administrative Sciences, Yaşar University, Turkey
David Bednall	Deakin School of Management and Marketing, Deakin University, Australia
Doğan Gürsoy	School of Hospitality Business Management, College of Business, Washington State University, WA, USA
Douglas A. Hibbs	Centre for Public Sector Research, Göteborg University, Sweden
Eberhard Fess	Aachen University of Applied Sciences and Technology, University of Frankfurt, Germany
Faruk Güder	School of Business-Isorn, Loyola University, Chicago, IL, USA
Fevzi Okumuş	Rosen College Faculty, University of Central Florida, FL, USA
Giancarlo Marini	Faculty of Economics, University of Rome, Italy
Halil Murat Yıldız	Faculty of Arts, Ryerson University, Canada
Haluk Soyuer	Faculty of Economics and Administrative Sciences, Ege University, Turkey
İge Pınar	Faculty of Economics and Administrative Sciences, Yaşar University, Turkey
Kulu Zoral	Faculty of Economics and Administrative Sciences, Yaşar University, Turkey
M. Hulusi Demir	Faculty of Engineering, Yaşar University, Turkey
Michael K. McCuddy	College of Business Administration Faculty, Valparaiso University, Indiana, USA
Musa Pınar	College of Business Administration, Valparaiso University, Indiana, USA
Muzzo (Muzaffer) Uysal	School of Hotel, Restaurant and Tourism Management, University of South Carolina, SC, USA
Nicholas A. Lash	School of Business, Loyola University, Chicago, IL, USA
Orhan İçöz	Faculty of Economics and Administrative Sciences, Yaşar University, Turkey
Osman Gök	Faculty of Economics and Administrative Sciences, Yaşar University, Turkey
Ömer Baybars Tek	Faculty of Economics and Administrative Sciences, Yaşar University, Turkey
Pınar Evinir Mandacı	Faculty of Business, Dokuz Eylül University, Turkey
Refik Soyer	Institute for Reliability and Risk Analysis, The George Washington University, Washington, DC, USA
Scott McDonald	School of Business, Oxford Brookes University, United Kingdom
Süleyman Yüksü	Faculty of Economics and Administrative Sciences, Dokuz Eylül University, Turkey
Tamer Çavuşgil	Robinson College of Business, Georgia State University - USA
Thomas Lange	AUT Business School, Auckland University of Technology, New Zealand
Yüksel Elkinsi	School of Business Oxford Brookes University, United Kingdom

# **INTERNATIONAL JOURNAL OF BUSINESS, MANAGEMENT AND ECONOMICS**

**Editor - In - Chief**

Orhan İÇÖZ

Volume 4 No. 11-12 November - December 2010



Issue 2010

Cataloging- In- Publication Data

**INTERNATIONAL JOURNAL OF BUSINESS,  
MANAGEMENT AND ECONOMICS**

Volume 4 No. 11-12 November - December 2010

ISSN 1306 1097

© Author(s) and Yaşar University

No part of material protected by this copyright may be reproduced or utilized in any form or by any means, electronic or mechanical, including photocopying, recording or by any information storage and retrieval system, without written permission from the Yaşar University. Author(s) have right to publish their article elsewhere electronically or in another publication.

Cover Design

Onur Erbaş

Printed in Turkey:

**META Basım Mülbaacılık Hizmetleri**  
Tel: 0 232 343 64 54 Bornova - İzmir

# INTERNATIONAL JOURNAL OF BUSINESS, MANAGEMENT AND ECONOMICS

## CONTENTS

### Best Papers of ICBME'10 – Vol 4, No.11 November 2010

A MATHEMATICAL FRAMEWORK FOR SELECTING A SUITABLE ORGANIZATIONAL STRUCTURE (CASE STUDY: TABRIZ MACHINE MANUFACTURING COMPANY)	
Alireza Bafandehi Zendeh, Mahdi Parvizpoor	1
THE EFFECTS OF CAREER COMMITMENT, ORGANIZATIONAL COMMITMENT AND TRUST ON ORGANIZATIONAL CITIZENSHIP BEHAVIORS OF HOSPITAL AND HOTEL EMPLOYEES	
Kivanç İncimer, Ezgi Örgümcü, Gülnihal Patlak, Neşe Salıcı, Hatice Sarıol	12
THE EFFECTS OF PERSON-ORGANIZATION FIT ON EMPLOYEE JOB ATTITUDES IN THE HOSPITALITY INDUSTRY IN TURKEY	
Mustafa Tepeci	26

### Honorable Mentioned Papers of ICBME'10 – Vol 4, No.12 December 2010

THE OWNERSHIP STRUCTURE ON THE CAPITAL STRUCTURE AND THE FIRM PERFORMANCE	
Agus Zainul Arifin	40
IMPLEMENTING SIMPLE SLOPE TECHNIQUES TO INTERACTION OF WORK VARIABLES	
Aydem Çiftçioğlu, Özge Arıbacı	58
RECENT DEVELOPMENTS IN PHILIPS CURVE	
Erhan Yıldırım, Selim Çakmaklı	72
EXAMINING THE IMPACT OF CUSTOMER AND PERSONNEL GENDER ON SERVICE QUALITY IN BANKING INDUSTRY	
Musa Pınar, Sandy Sausser, Zelilia Eser	82
ELECTRICITY CONSUMPTION AND SPILLOVER EFFECTS – A DYNAMIC PANEL DATA APPROACH	
Veysel Ülmasov, Erdem Kılıç	101

VOLATILITY TRANSMISSION IN EMERGING EUROPEAN FOREIGN EXCHANGE MARKETS Vít Bubák, Evzen Kocenda, Filip Zík	117
THE IMPACT OF PRIVATIZATION ON INCREASE OF PRODUCTION AND PRODUCTIVITY: A CASE OF IRANIAN PUBLIC SECTOR Younos Vakil Alroaia, Akram Ziari	129

# THE OWNERSHIP STRUCTURE ON THE CAPITAL STRUCTURE AND THE FIRM PERFORMANCE

**Agus Zainul ARIFIN**

*Faculty of Economics, Tarumanagara University, Indonesia*  
*agusza1808@gmail.com*

## ABSTRACT

The financing activity can generate a conflict between the management and the stockholder or creditor as a consequence of the opportunity management behaviours. These behaviours have also influence on the firm performance. The phenomenon of this research is the influence of the ownership structure in determining the selection of the firm's financing sources and on the firm performance. The aim of this research is to find the influence of the ownership structure on the capital structure and on the firm performance on the framework of the agency theory.

This research was conducted at non financial public companies listed at the Jakarta Stock Exchange in years 2001-2003. This study used analysis tool of the two stages least square equation (2SLS) models. The first model is to test the influence of stock ownership structure, asset growth of the firm, and asset structure of the firm on the capital structure. The second model is to test the influence of the stock ownership structure, capital structure, firm size, and risk of stock return on the firm performance. The conclusions give answers to all the problems.

**Key Words:** Agency Theory, Stock Ownership Structure, Capital Structure, and Firm Performance

**JEL Classification:** G32

## 1. INTRODUCTION

The existence of capital markets provides an opportunity for companies to increase funding and improve their capital structure so that they can operate at a larger scale with more healthy capital structure, which in turn will help improve corporate earnings, society, and the macro economy. According to data of Indonesian *Capital Market Directory* (2004), until the end of the year 2003 the number of companies that have already utilized the capital market (Jakarta Stock Exchange) as an alternative source of financing for the company was as many as 333 companies, with total market

capitalization as much as IDR 236 million. For companies, management decisions concerning the source of funding through capital markets, which is the choice of financing whether debt or equity, would affect their capital structure. So the stock of capital funding in the capital markets impact on the structure of corporate ownership and capital structure.

In modern companies, including public companies in Indonesia, there has been separation of functions: ownership and control. Ownership functions are automatically held by the shareholders, while control functions are held by professional managers who are paid and contracted to carry out operations in accordance with the objectives of shareholders. The separation of functions is the initial cause of agency problems between the shareholders (*owners or principals*) and managers (*agents*). The problem was rooted in self-management (Jensen and Meckling, 1976).

As a rational person, the manager (*agent*) in addition to its role for the benefit of the owner, also has his own personal interest, that is maximizing his personal utility by charging the cost to the company. While in terms of risk, labor market of manager containing a total risk that can not be diversified, because management performance can only be seen from its success in managing company that provides assurance to him that he will still be able to work managing the company or dismissed from his job. Failure of a manager in managing the firm will be an obstacle for him to get another job at another company in the same position. Indonesia Capital Market watchdog Bapepam Code No. IX.1.6 paragraph 1 c year 2004 states that prospective members and commissioners of public company directors should not be derived from other companies who have declared bankruptcy or been found guilty of causing the company bankrupt within five years preceding his appointment. Because it has borne the risk, then management will reduce the total risk by reducing the debt or use under the optimal debt level although this may reduce firm value.

Agency problem between owners and management can be reduced by monitoring the management policies that are opportunistic. Shareholders wealth would be reduced due to the management of opportunistic behavior if monitoring isn't done (called the agency cost of equity). The monitoring system can be done in two ways, i.e. the monitoring of internal and external monitoring (Bathala, Moon, and Rao, 1994). Internal monitoring can be done by the managerial shareholders, the presence of auditors, and the members of Independent Board of Directors placement. Share ownership by management can reduce opportunistic behavior by management through the built internal control, because every outcome of management decisions will have a direct impact on themselves. While external monitoring can be conducted by external shareholders (non-shareholder) and creditors. Effective monitoring by the various parties are expected to encourage companies to walk in the right direction that will improve company performance.

Ownership of shares at issuing companies which are listed on the Jakarta Stock Exchange (JSX) scattered at various parties in society. Parties that have issuers' stocks listed on the JSX can be classified into three groups (classification according to the *securities report issued by the Indonesian Capital Market Directory*). Among the three

group of shareholders, only the group of shareholders is the most effective institution that can monitor and influence management policies, because this group have a formal mechanics and budget and are consistent (Bathala, Moon, and Rao, 1994). Internal party can effectively monitor is managerial stock ownership, because of it can influence management policies for the benefit of shareholders. The size of the managerial ability of shareholders to monitor depends on how much ownership of shares held by the management.

The phenomenon of capital structure on non-financial issuers companies in Jakarta Stock Exchange (JSX), showed that the composition of the capital structure of non-financial issuers during the period 1993 to 2003 is more dominated by debt, indicated by the level of leverage The average value above 60%. According to Lasher (2003:431), the optimal capital structure for the company's business has a debt level in the range between 30% - 50%. Although this criterion is not a regulatory standard, it has become an accepted wisdom as a general guide in managing the company's capital structure.

Performance of public companies on the JSX in the year 2001 to year 2003, can use the research results from SWA Magazine MarkPlus and Master of Accounting, University of Indonesia (MAKSI UI), which assesses the financial performance of companies with the EVA approach. The result, in 2001 (based on the financial statements as of December 31, 2000). Companies that were able to record a positive EVA numbered 47, and in 2002 droped to 33 companies, and in 2003 only 24 companies. It showed some issuers in Indonesia have not been able to generate returns that can cover the risk capital (Poeradisastra, 2003:28). This means that fundamentally, it can be said that the management as an agent of the shareholders had failed to perform its role to achieve company goals.

## 2. FORMULATION OF RESEARCH

Based on the background described earlier, the problems in this research are as follows:

- a. Does the share ownership by institutions and the managerial share affect the capital structure?
- b. Does the share ownership by the institution and the managerial share ownership, and capital structure affect the corporate performance?

## 3. LITERATURE REVIEW

The company's main objective is to enhance shareholders' value by increasing and maximizing shareholders' wealth or firm (Ross, Westerfield, and Jaffe, 2002) or maximizing corporate value (Keown, 2002). Fama (1978) suggested that maximizing the value of the companies often expressed with a form of maximizing the value of company stock. Destination covered companies within both the prosperity of the stock holders or bond securities. Component selection decisions about which funding sources will be selected, ideally the company should refer to the company's objective, that is maximizing welfare, which can be realized through improved corporate performance. In other words, selection of the composition of capital structure by firms in financing activities will also affect the performance of the company.

The company shares are owned by various parties after becoming a public company. Ownership structure is the parties who own shares of the company. Jensen and Meckling (1976) stated that structure or equity ownership of the company is the parties who own shares in proportion (Kuznetsov and Muravyev, 2001). The problems that arise in agency relationship are separation between ownership functions and control functions.

Grouping of stock ownership structure can be done in various ways. According to Yamaeersri and Loh, (1997), ownership structures are grouped into family group, management, and outside the company. Meanwhile, according to Brailsford, Oliver, and Pua, (2002), structure of shareholding is grouped into: institutional shareholders, individuals, and managerial. In conjunction with monitoring the activities of policy management, ownership structures are classified based on the opinion of Brailsford, Oliver, and Pua, (2002), which differentiate into institutional shareholders, individuals, and managerial.

Demsetz (1983), Shleifer and Vishny (1986), Agrawal and Mandelker (1990); Bathala, Moon, and Rao (1994), Brailsford, Oliver and Pua (2002), stated that share ownership structure may affect the company's capital structure. Share ownership by management is the application of internal control mechanism function, and by non management is external control mechanism function. The effectiveness of this control can affect management policies in the use of funding sources which means affect in the company's capital structure.

Jensen and Meckling (1976) said ownership by the manager (*managerial ownership*) can reduce the managerial incentive to do additional consumption, the acquisition of shareholders' wealth, and against other non-maximizing behaviour management. Behaviour that reduces shareholders' wealth. This raises a conflict between management and shareholders. This conflict can be reduced through the alignment of interests between management and shareholders, through stock ownership by management. However, share ownership by management over the ownership of a number of external parties will have an impact on the control of the manager is low (defensive attitude by the management), so it will encourage the management to increase its opportunistic attitude. Share ownership by management will reduce the high levels of debt because debt is an external control mechanism. Debt management can reduce the freedom of exercise control over corporate cash flows and other activities that are not optimal.

Relationship with the ownership structure to capital structure can be summarized as follows (Jensen and Meckling, 1976):

- a. Level of share ownership by management has a negative correlation with the level of debt, at a high level of share ownership by management, the level of debt will be reduced.
- b. Block holders' actively control rules and they encourage companies to lower debt levels.
- c. Share ownership by management and by external block causing the interaction. At low levels of share ownership by management, more effective external block holders lead to a negative relation with debt ratio. However, the management will

stay on the level of ownership in a high level. The relationship between share ownership by block and the ratio of debt will be weak.

Besides ownership structure, corporate capital structure is also influenced by other variables as control variables, namely variable assets structure and growth assets. The structure shows the value of collateral assets with corporate assets (*collateral value of assets*). The higher company's assets that can be secured, the bigger debt with collateral (*secured debt*) can be obtained from the company. Company that has a guarantee would tend to use greater debt. Creditors will always give credit when there is collateral (Titman and Wessels, 1988). Companies that have insurance against debt, would more easily get loans compared with the companies that do not have a guarantee of debt (Brigham and Gapenski, 1996). One way to avoid the agency costs between management and shareholders is by issuing debt with collateral (*debt secured*) property. For this reason, companies that have assets which can be used as collateral (*collateral assets*) to obtain the debt (*secured debt*) allow issuing more debt to gain a better investment opportunity. This means that the debt as a compromise between management and shareholders (Myers and Majluf, 1984).

Brailsford, Oliver, and Pua (2002) use the control variable annual growth of assets (growth) to measure the capital structure according to agency theory. Titman and Wessels (1988) argue that high growth rate shows greater flexibility in investing in the future and offers a larger opportunity to take over the welfare of the debt holder. So growth is inversely related to debt ratio or high growth rate indicates the ability of a company's earnings. So generally there is a negative relationship between growth and debt.

Shareholding structure and corporate performance according to agency theory depends on the interaction between the effects of alignment and the effects of defense for managerial shareholders (internal). On one side, an ownership share by management is a tool to align managerial interests with shareholders. Management, beside to be bound by the contract, is also given monetary incentives to maximize and grow the company. This condition is called alignment effects. On the other side, share ownership by management can improve the defense by monitoring the management of external parties when management has a low skills and wanting an easier life. This condition can occur if the ownership of shares by managerial ownership is greater than the other Party. This situation is called defense effects. Overall, the impact of share ownership by management on firm performance depends on the relative strength through securities and securities defense alignment (Kuznetsov and Muravyev, 2001).

Kuznetsov and Muravyev (2001) found evidence that there is a positive relationship between the highest concentrations of share ownership by external parties on performance as measured by labor productivity. Solihah and Taswan (2002) found a significant positive relationship between *insider ownership* and firm value. Furthermore, Lemon and Lins (2003) who investigated the relationship of share ownership structure and firm value during periods of crisis in eight East Asian countries explained that the structure of share ownership by management at a high level of ownership that can only reach 20% of performance boost.

Ang, Cole, and Lin (2000) using a sample of 1208 companies examine the effect of share ownership structure on firm performance, and concluded, namely: (1) negatively related to the company if the shares held by *multiple managers* is greater than that on the *inside manager* (2) positively related if it is state ownership, and (3) correlated negatively if the amount of non-manager share ownership increases.

Relations capital structure with the performance of the company can also be explained through empirical research. Ang, Cole, and Lin (2000) argued that increased solvency by lenders, due to the increasing amount of debt (the composition of capital structure), leads to increased corporate performance. White, Sotila, and Tasywan (2002) found evidence that there is no significant positive relationship between debt policy in the capital structure of companies and enterprise value.

Hatfield, Cheng, and Davidson (1994) examined the effect of capital structure based on industry classification to the value (performance) companies. Industry classification is based on "value line industrial classification", which is grouped into two companies. The first group is the company's corporate capital structure (*leverage*) above the average industry leverage ratio and the second group is the company's corporate capital structure (*leverage*) below the average industry leverage ratio (the average leverage ratio of all samples). Masulis (1983) states about the effect of leverage with the company's enterprise value, as follows: (1) for company with high debt, capital structure: positive effect on firm value, and (2) for company with low debt, capital structure negatively affect company value.

Stewart (1991:66) stated that EVA (economic value added) is a measure of the real financial performance compared with most other gauges in viewing the actual economic benefits of a company. Economic value added is the operating profit after tax minus the cost of capital for an investment. Trulley (1993:38) stated that if EVA is positive, the company is able to produce positive results and create shareholder wealth, while negative EVA indicates the company's capacity as a destroyer of shareholder welfare. In the long term, companies can have a value of expected EVA is positive, because the companies that will survive are the companies that could have a positive EVA values.

#### EVA Calculation Component:

Formulas used to calculate the EVA (Stewart, 1991:137) will be as follows:

$$EVA = NOPAT - c^* \times Capital$$

$$EVA = (r - c^*) \times Capital$$

WHERE:

*NOPAT* = net operating profit after tax (*Net Operating Profit After Tax*)

*c<sup>\*</sup>* = cost of a weighted average of capital (*Weighted Average Cost Of Capital*)

*Capital* = Total funds consisting of interest bearing debt and equity shares that are available on the company to fund company operations.

$$r = NOPAT / Capital$$

Lamertich and Vannovsky (1999) have different opinions about other variables (as *control variables*) that affect firm performance levels according to agency theory. According to them, company performance is limited by the size and the risk of the

company share return. Companies that have a large size typically have a larger *net income* from the company's small size. Companies with large size provide compensation for the company to choose a good and experienced management team. The companies have the opportunity to select the input manager. Experienced managers will demand relatively high salaries. Managers who have high skills and capabilities are expected to provide superior returns in order to meet company objectives. Thus, firm size has a positive relationship with performance. Relationship risk of share return, measured by the standard deviation of share *returns*, with the share performance is negatively related to firm performance. Risk of share *return* is the proxy of the total risk.

#### **4. RESEARCH HYPOTHESIS**

From the description of the background of the problem, research problem, literature review and research hypothesis is built as follows:

- a. The proportion of institutions share ownership by external, the proportion of managerial ownership of shares by internal have effects on corporate capital structure with following sub-hypotheses:
  - 1) Ownership of shares by institutions negatively affects the company's capital structure.
  - 2) Managerial share ownership negatively affects the company's capital structure.
- b. The proportion of share ownership by the institution, the proportion of share ownership by the manager, and capital structure affect firm performance. Based on this hypothesis, further sub-hypotheses can be made as follows:
  - 1) Ownership of shares by institutions has positive influence on company performance.
  - 2) The managerial share ownership has positive effect on firm performance.
  - 3) The company's capital structure negatively affects company performance.

#### **5. RESEARCH METHODOLOGY**

The objects of this study consist of variables including exogenous variables: managerial share ownership, institutional share ownership, asset structure, asset growth, company size and share return risk. Endogenous variables include variables of capital structure and corporate performance. The subject of this research is issuers listed on the Jakarta Stock Exchange (JSX) as many as 333 companies. The data used are secondary data in the form of annual financial statements of the period 2001 - 2003 (pooled data). These periods were chosen because the economic conditions were in a state of relatively normal after recovering from the economic crisis in 1997. Samples are non-financial issuers (companies outside the banking and financial institutions and investment). The sampling technique used was purposive sampling criteria: (1) selected non-financial issuers outside the company investment banking and financial institutions during the period 2001 to 2003 (2) issuers with positive equity. Based on these criteria, 193 firms were found.

Each of the 193 issuers, research variables will be measured from annual data for 3 (three) years, except for annual share return of risk variables that uses monthly share price data. Operationalization of the variables used in this study are presented in Table

2. The research model consists of two models of equation (1) and (2). The model of equation (1) add two control variables: asset structure and Growth asset. The model of equation (2) add two control variables: firm size and risk of the company share return. These models are:

**Capital Structure Model:**

$$CS = \beta_{10} + \beta_{11}IS + \beta_{12}MS + \beta_{13}AS + \beta_{14}AG + \varepsilon_{11} \quad (1)$$

**Company Performance Model:**

$$CP = \beta_{20} + \beta_{21}CS + \beta_{22}IS + \beta_{23}MS + \beta_{24}SIZ + \beta_{25}VAR + \varepsilon_{21} \quad (2)$$

**Table 2. Operationalization of Research Variable**

Variable	Variable Concept	Indicator
Capital Structure (CS)	Composition of debt with equity. (Watson and Copeland, 1992)	The ratio of book value of long-term obligation with a market value of equity plus long-term obligation
Company Performance (CP)	Measuring the results of an internal process carried out within the company during the specified period. (Mulyadi, 1993; and Steward, 1991)	The ratio between $\{(\text{NOPAT} / \text{Capital}) / \text{WACC}\}$ multiplied Capital
Institutional Ownership (IS)	Percentage of shares held by institutions as an external monitoring agent due to the size of their investments in capital markets. (Wahidawati, 2001; Brailsford, Oliver, and Pua, 2002)	The ratio between the number of ordinary shares owned by institutions (companies, pension funds, insurance, banks) to total outstanding common stock.
Managerial ownership (MS)	The percentage ownership of shares held by the management as internal monitoring agency that actively participates in corporate decision making. (Bathala Moon, Rao, 1994; Wahidawati, 2001)	The ratio between the number of ordinary shares owned by members of the managers and directors to the total common shares outstanding
Asset Structure (AS)	Reflects the value of corporate assets that can be used as collateral to obtain loans from the bondholder. (Titman and Wessels, 1988; Wahidawati, 2001)	The ratio of fixed assets to total assets
Asset Growth (AG)	The average rate of annual growth of total assets. (Titman and Wessels, 1988; Brailsford, Oliver, and Pua, 2002)	The ratio between the total value of assets by the end and beginning of the year divided by the total asset value at beginning of year.
Company Size (SIZ)	The size of the company's sales during the period, which can be seen from the sales. (Lauterbach and Vaninsky, 1999).	Natural log of annual sales
Risk Share Return (VAR)	Variability corporate earnings and profit is defined as the coefficient of variation. (Lauterbach and Vaninsky, 1999).	Standard deviation of stock price change (per month)

Source: from many sources

## 6. ANALYSIS OF RESEARCH RESULTS AND DISCUSSION

### a. Data Analysis of Research Model

In calculating the 2SLS model, the regression coefficient will be searched, the independent variables influence the dependent variable, and the coefficient of determination ( $R^2$ ). Before the data is included in the model, first it has passed the test of classical assumptions. The model equation (3) and (4) satisfy the classical assumptions (criteria Unbiased BLUE = Best Linear Estimators)

#### 1) First Phase: Model Capital Structure

At this stage built into one based on equation (1) to see the effect of Institutional share Ownership (IS), Managerial share Ownership (MS), Structure of Assets (SA), and the Growth of Assets (AG) to the Capital Structure (CS). Results of statistical calculations are presented in Table 3.

Table 3. Calculation results of the First Phase (Model Capital Structure)

Model	Coefficients				
	Unstandardized Coefficients		Standardized Coefficients	t	SIG
	B	STD. Error	BETA		
Constant	.212	.049		4.292	.000
IS	-.047	.011	-.030	-2.241	.019
MS	.232	.062	.060	3.742	.000
SA	.324	.046	.283	7.059	.000
AG	-.038	.003	-.059	-3.972	.000

a. Dependent Variable: CS

Source: Results of calculation

Based on Table 3, the statistics shown in the model equation (Eq. 3) is:

$$CS = 0.212 - 0.047 IS + 0.232 MS + 0.324 SA - 0.038 AG \quad (3)$$

F sig = 0000

#### 2) Second Stage

Based on test results of the OLS equation of the first stage, then calculated the effect of Institutional Ownership (IS), Managerial Ownership (MS), corporate capital structure (CS), Size of Company (SIZ), Risk of Shares (VAR) on company performance (CP). In this test the value of capital structure (CS) that is used is the value of capital structure predictions (CS). The value of capital structure predictions is obtained from the calculation of the first phase, which form the basis for the calculation of the second stage OLS. Calculation results in the form of equations presented in Table 4.

Table 4. Calculation results of the Second Phase (Model Company Performance)  
Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	SIG
	B	STD. Error	BETA		
Constant	-105.733	23.467		4.505	.000
IS	15.336	6.366	.035	2.409	.012
MS	12.338	5.202	.011	2.371	.023
SA	3.353	1.966	.075	1.706	.089
AG	-.265	.090	-.004	2.944	.000
EST CS	-2.482	.821	-.003	3.023	.000

a. Dependent Variable: CP

#### Source: Results of calculation

Based on Table 4, the statistics are shown in the model equation (Eq. 4) is:

$$CP = -105.733 + 15.336 IS + 12.338 MS + 3.353 SIZ - 0.265 VAR - 2.482 CS \quad (4)$$

F sig = 0000

#### b. Discussion of Research Results

##### 1) First Model: Corporate Capital Structure

###### a) Effect of Institutional Ownership (IS) to the Capital Structure (CS)

Institutional ownership is part of the shareholders who conduct external monitoring. This party has an effective capability to monitor because it has the systems and budget through the voting mechanics. The greater the proportion of shares held by institution the more effective they monitor the management of opportunistic behavior, so the management can make a policy of funding and fund management well and debt servicing obligations are met.

On equation 3, note that institutional ownership of individual variables (IS) has the negative influence of capital structure of the company (CS). So in this economy means greater ownership by the institution, the institution tends to reduce the debt, or give priority to the use of equity as a source of corporate funding, thus causing more and more leverage ratio to be reduced, *ceteris paribus*. The ability of institutional shareholders to push the low leverage ratio indicates the monitoring by the institution has been effective to reduce agency costs.

Based on these empirical findings, the research is still consistent with previous research results and in accordance with the research hypothesis which states that share ownership of institution negatively affects the company's capital structure. So this hypothesis can be proven. This supports the results of research by Bathala, Moon, and Rao (1994).

Significant monitoring activity by institutional investors due to the size of their investments in shares, and has substantial economic interests to make a profit. Companies that are monitored by the larger institutions, will require less debt.

Ownership of shares by institutional investors acts as an important monitoring agent that plays an active and consistent role in protecting the equity investment at stake in the company. The monitoring mechanics will ensure the economic prosperity of shareholders as a whole.

### b) Effect of Managerial Share Ownership (MS) on the Capital Structure (CS)

Equation 3 indicates that the individual variables and managerial ownership (MS) has a positive influence on the direction of company's capital structure (CS). It means that greater managerial ownership will lead to increasing leverage ratio. This findings is in contrast with the research hypothesis. The inconsistency of research results with the proposed hypothesis, can be explained as follows:

- i. Risk management is covered by a total risk that cannot be diversified in the managerial labor market. Performance generated by the management will impact positively or negatively on their future career as a member of the management company. This will also be able to determine whether the managerial labor market accepts them if they move to another company. With a total risk inherent on self-manager, then they will maximize their own welfare by doing business expansions that are expected to enhance the status, salary, bonus, compensation, and require excessive facilities. Expansion of the management will use internal funds and external sources (including debt). To that end, the company funding source selection decisions are necessary to control and supervise.
- ii. Managerial share ownership is part of the functionality parallels between management and shareholders. So managerial share ownership is part of internal monitoring by the shareholders (Jensen and Meckling, 1976; Brailsford, Oliver, and Pua, 2002). However, the effectiveness of internal monitoring by shareholders against managerial opportunistic behavior is determined by the size of their voting power through its share ownership proportion. If the proportion of shares held by managerial is relatively small, the internal monitoring function is not effective, as a result of opportunistic behavior by management that can not be controlled, and vice versa. The study shows that managerial ownership levels are relatively low (2.72%, 2.39% and 2.29% respectively for the years 2001, 2002, 2003). Bathala, Moon, and Rao (1994) found similar evidence that ownership shares below 5% is considered less effective for monitoring. Based on this, it can be said that the company's internal monitoring capacity is relatively small number, so the company's internal monitoring functions are also weak. In order for the monitoring function to run well, there should be external monitoring by creditors (bondholders). Creditors will supervise the use of money loaned to conform with the credit proposal submitted to the company. Creditors will also conduct oversight of these policies with the company entered into a contract that would restrict the management in making policy (bond covenants). Bond covenants may reduce the opportunistic nature of management, so that agency costs decrease. They raise the debt burden remains of interest. These expenses will reduce free cash flows that can be used by management. The bigger the

company less as the risk borne by creditors will be greater. For that creditor will conduct more stringent oversight, *ceteris paribus*. Thus, debt is a compromise between shareholders and management (Myers and Majluf, 1984). This phenomenon explains why managerial share ownership on the proportion of small gives positive effect on capital structure (*ceteris paribus*).

ii) Viewed from the asymmetric information theory, the phenomenon of a positive relationship between managerial share ownership of capital structure can also be explained. The proportion of managerial ownership is not significant, causing the party to dominate management of information (information superiority) compared to the other party. If so, the management prefers debt financing than equity financing, and debt will optimize resources, since the debt will lower the cost of capital (Myers and Majluf, 1984).

## 2) Model Two: Company Performance

This section will study the influence of institutional ownership (IS), managerial share ownership (MS), and capital structure (CS) on company performance (CP).

### a) Effect of Institutional Share Ownership (IS) to Performance (CP)

The company's main objective is to maximize shareholder wealth. Separation of the two functions has a conflict of interest leading to problems of agency that simultaneously generate agency costs because of the opportunistic nature of the agents. Rationality he also wanted his personal goal achieved that is maximizing individual utility. At the same time, the public company, the ownership share is owned by many parties, consisting of institutional shareholders, founders' shares, and individual shares, and other parties. Each party has different interests and abilities in directing the company's goals. The spread of share ownership and control functions with a separation between ownership functions causes the control of the company by the owner of the company's overall weakened.

The presence of institutional shareholders that control problems can be overcome. Institutions as shareholders have the resources and budget. It functions as a part owner of the company with the same goal, so he will conduct an active and simultaneous control of the actions and policies of the management. So the more effectively it controls, resulting in the management of opportunistic behavior can be suppressed and the company management can decide to remain on the company's true goal. If the goal is achieved well company, it can improve company performance. In equation 4, it is shown that individual institutional ownership variable (IS) has the direction of a positive influence on company performance (CP). It is still consistent with previous empirical research by Kazaev and Muravyev (2001), Bathata et al. (1994) and Berger and Patti (2002). They conclude that institutional shareholders have the good effect of monitoring (monitoring) that can reduce agency costs so that company performance can be improved.

### b) Effect of Managerial Share Ownership (MS) to Performance (CP)

Equation 4 shows that individual managerial share ownership variable (MS) has the direction of a positive influence on company performance (CP). Ownership of shares by

managerial is one form of corporate internal controls, such as internal audit, management information systems, and other diamonds. Internal control through managerial share ownership is inherent on its self-management i.e. policy makers, because every outcome of a decision, whether positive or negative, the result will be returned at ourselves as decision makers. Managerial shareholders also represent other shareholders, with the same goal. The greater number of shares owned by management, the greater impact of decision will make it back themselves as a shareholder. Therefore, they will try to make a decision based on company objectives. Management will reduce its opportunistic properties so that agency costs are reduced and corporate performance will be increased.

### **c) Effect of Capital Structure (CS) to Performance (CP)**

Debt financing decisions involve the two parties directly concerned, namely management and creditors. From the side of the company, the debt poses two main problems of agency costs and problems of controlling capital costs and also benefit from tax relief on interest costs. Both issues have an impact on corporate performance, whether positive or negative. For the management, use of debt raises the problem of management of risks. Both possibilities give effects that can be explained as follows:

- i. If a relatively large share of ownership, then the external monitoring by shareholders against management is more effective and thus reducing agency costs. The use of debt would cause the cost of monitoring by creditors. Overall, the result of monitoring by institutional shareholders and creditors at the same time increase the cost of agency. This will reduce the cost of meaningful results, so decreasing corporate performance. So we can conclude the greater the debt, the proportion of large institutional ownership, will reduce the company's performance.
- ii. If institutional ownership is relatively small so that external monitoring of management effectiveness is low, the management of opportunistic behavior is high. Opportunistic behavior by management is greater if the management has superior information compared to the other party. To improve the effectiveness of monitoring, the use of debt is a middle ground between shareholders and management. Creditors will conduct monitoring over the life of the loan to reduce the risk of unpaid receivables. Thus cost of agency will be reduced.
- iii. According to agency theory, the total risk borne by the management cannot be diversified in the managerial labor market. The success of producing a good performance management will ensure the sustainability of the work, if otherwise they can be dismissed. If management dismissed because of poor performance, it is difficult for them to get back to work. To keep the management still working on its current position, they will reduce the risk of bankruptcy so the company will survive, which means ensuring its presence on the job now. To reduce the risk of bank bankruptcy, the management will use the loan funds below the optimum level (sub-optimal), or if the company has high leverage he will reduce the debt because debt can increase the risk of bank bankruptcy due to financial fixed expenses.

incurred. This means that management does not pay attention to relevant theories of capital structure according to the trade-off framework in setting the company's capital structure.

iv. Viewed from the relevant theory of capital structure according to the trade-off framework which states that firms have optimal capital structure. In capital structure policy, the company will gradually lead to the optimum capital structure. In the state of optimum capital structure, minimum capital cost, so that the value of the firm can be maximums (*ceteris paribus*).

Equation 4 indicates that the capital structure of individual variables (CS) has a direction of negative influence on firm performance (CP). Based on these findings, this research is still consistent with the hypothesis and the results of previous research and that capital structure negatively affects company performance can be proved.

Lasher (2003, 431) provides guidance on the optimum capital structure adopted by business firms on the level of leverage ranged between 30% - 50%. Empirical evidence of the average leverage ratio per year of the study was 31.63%, 31.72% and 28.03% respectively for the years 2001, 2002, and 2003. This means that the capital structure of research the object is at the lower levels in the optimum range. This allows the company increase the value of its debt to reach the optimum point for the best. The potential to increase the company's debt capacity is supported by the state of the asset structure that has been used for collateral for loans that are still below 100%.

From the company's point of view, if you follow the theory of optimum capital structure, the company still has the potential to increase the value of debt to enhance shareholder value, because the optimization of debt can still be improved, which can be seen from the ratio of total debt and the collateral value of assets under 100% and the average leverage ratio at the position below the optimal range (30% - 50%) according to Lasher (2003) criteria. According to the trade-off theory of capital structure, this condition should encourage companies to add debt to enhance shareholder value. This means if the company adds debt, it will increase corporate performance. In other words capital structure is positively related to company performance.

Empirical facts from the research and the research hypothesis states the opposite, in which capital structure is related negatively to company performance. This fact can be explained by agency theory. The nature of the relationship between capital structure and corporate performance depends on the nature of the complex relationship between shareholders, management and creditors. Three party relationships will determine the effectiveness of monitoring and overall agency costs. The nature of this relationship can be simplified through the level of effectiveness of monitoring by shareholders against management policies in the use of financial resources. Level of effectiveness depends on the strength of the voting rights (voting power) of the shareholders.

The empirical fact explains that the average institutional ownership in the observation period was above 50%, ie. 67.62%, 66.99% and 67.35% respectively for the years 2001, 2002, and 2003. This means that institutional shareholders have absolute voting power, which means they have the effective monitoring of management policy, so agency costs can be reduced.

Meanwhile, shareholders in terms of managerial, the proportion of shares owned by management is relatively small, i.e. 2.73%, 2.39% and 2.29% respectively for the years 2001, 2002, and 2003. Low level of managerial ownership causes ineffective internal monitoring, resulting in gaps of information (asymmetric information). Between the management of corporate information and the dominating shareholders. To balance the company's distribution of information, it encourages shareholders to raise debt, because creditors will perform monitoring to management policy. However, this will lead to the use of debt agency costs due to the cost of monitoring by creditors that overlap with the monitoring by institutional shareholders. So, the total cost of monitoring by external Parties (institutional shareholders and creditors) would rise. As a result, performance will go down. Options are to encourage the use of debt by shareholders despite the increase of agency costs, assuming that the cost due to loss of information due to the information domination by the management is greater than monitoring by creditors.

This analysis will be valid with the assumption that the company's true character of asymmetric information, i.e. information of the company management is superior compared to the other party.

## 7. CONCLUSION

Based on the formulation of the problem and hypotheses that have been built as well as analysis of the research, results can be summarized as follows:

- 1) Share ownership by external parties (institutions) and the managerial share ownership have effects on non-financial issuers of capital structure listed on the Jakarta Stock Exchange during the study period. Effect of each independent variable on the capital structure, are as follows:
  - a. Institutional share ownership negatively affect the capital structure of companies.
  - b. Managerial share ownership has positive effect on the company's capital structure.
- 2) Share ownership by external parties (institutions), the managerial share ownership, and corporate capital structure have an influence on the performance of non-financial issuers listed on the Jakarta Stock Exchange during the study period. Effect of each independent variable on firm performance follows:
  - a. Ownership of shares by institutions has positive influence on company performance.
  - b. Managerial share ownership has positive effect on firm performance.
  - c. Capital structure negatively affects company performance.

## REFERENCES

Agrawal, A. and Mandelker, C.R.. 1990. Firm Performance and Mechanism to Control Agency Problems Between Managers and Shareholders. *Journal of Financial and Quantitative Analysis*.

Anamrous, Indonesian Market Directory (Year 2002, 2003, and 2004), Jakarta: ECFIN Institute for Economic and Financial Research.

Akerlof, George A., 1970. The Market of 'Lemons': Qualitative uncertainty and the Market Mechanism, *Quarterly Journal of Economics*, 85, pp. 488-500.

Ali Nazar dan Ahmed Belkaoui, 2001. Financial Management. Chicago: *The Dryden Press-CBS College Publishing*

Ang, James S., Cole, Rebel A., and Lin, James Wuh, 2000. Agency Cost and Ownership Structure, *The Journal of Finance* (February) Vol. LV, no. 1, 81 – 105.

Bank Indonesia (Central Bank of Indonesia), *Laporan Tahunan Bank Indonesia*, tahun 2001, 2002, dan 2003.

Barely, Michael J. and Clifford W. Smith, 2001. The Capital Structure Puzzle: Another Look at the evidence, Section III, *Capital Structure and Payout Policy Journal*, p. 197-209

Barton, Sidney L., Hill, Ned C., and Sundaram S., 1989, An Empirical Test of Stakeholder Theory Predictions of Capital Structure, *Journal of The Financial Management Association* (Spring), 36-44.

Bathala, Chenchuramaiah T., Kenneth P. Moon, and Ramesh P. Rao, 1994. Managerial Ownership, Debt Policy, and the Impact of Institutional Holdings: An Agency Perspective, *Journal of Financial Management* (Autumn) Vol. 23 no. 3, 38 – 50.

Baxter, N., 1967, Leverage Risk and the Cost of Capital, *Journal of Finance*, Vol. 22, 395 – 403

Berger, Allen N., and Emilia Bonacorsi di Pati, 2002, Capital Structure and Firm Performance: A New Approach to Testing Theory and an Application to the Banking Industry. <http://www.federalreserve.gov/pubs/feds/2002/200254/200254pap.pdf>

Brealey, Richard A. and Myers, Stewart C., 2000, *Principle of Corporate Finance*, 6th Edition, Singapore: McGraw-Hill.

Braithwaite, Oliver, and Pua, 2002, On the Relation Between Ownership Structure and Capital Structure, *Journal of Accounting and Finance* No. 42, p. 1-26.

Brennan, Michael and Andrew Schwartz, 1978, Taxes, Market Valuation, and Corporate Financial Policy, *National Tax Journal*, December, pp. 576 – 577

Chang R. P. dan S.G. Rhee, 1990. The Impact of Personal Taxes on Corporate Dividend Policy and Capital Structure Decisions, *Financial Management*, Summer 21 – 31.

Crutchley, Claire E., and Hansen, Robert S., 1989. A Test of the Agency Theory of Managerial Ownership, Corporate Leverage, and Corporate Dividends, *Journal of Financial Management*, Winter, pp 36–46.

Deinzer, Harold, 1983, Corporate Control, Insider Trading, and Rates of return, *AEA Papers and Proceedings*, May 1983.

Easterbrook, F.H., 1984, Two Agency Cost Explanation of Dividends, *American Economics Review*, September, pp. 650 – 659.

Fama, Eugene F., and Miller, 1972, Agency Problems and Residual Claims, *Journal of Law and Economics*, vol. 26, 327-349.

-----, 1978, The Effect of a Firm's Investment and Financing Decisions on the

Harris M. and A. Raviv, 1991, Capital Structure and Information Role of Debt, *Journal of Finance*, 35 (2), June, pp. 145 – 1666

Hatfield, B. Gay, Louis T.W. Cheng, and Wallace N. Davidson, 1994, The Determination of Optimal Capital Structure: The Effect of Firm and Industry Debt Ratios on Market Value, *Journal of Financial and Strategic decisions*, Volume 7 Number 3, 1994

Jensen, M. and W. Meckling, 1976. Theory of The Firm: Managerial Behavior, Agency Cost, and Ownership Structure, *Journal of Finance Economics* (December) 3, 305-360

Keown, Artur. 2002, *Basic Financial Management*. 12nd Edition, London: Prentice Hall International, Inc.

Kester, G. W., R.P. Chang, E.S. Echanis, and S. Sudigno. 1996. Dividend and Capital Structural Policy in Indonesia and Philippines: The View of Executive of Listed Firm, *Philippine Management Reviews*, p 25-44.

Kraus, A. and R.H. Litzenberger, 1973. A State Preference Model of Optimal Financial Leverage, *Journal of Finance*, pp. 911-922.

Kuznetsov, Pavel and Muravyev, Alexander. 2001. Ownership Structure and Firm Performance in Russia. The Case of Blue Chips of The Stock Market. Economics Education and Research Consortium (Working Paper No. 01/10. 2001), 1-57), <http://www.eerc.ru/publications/workingpapers/wp-01-10e.pdf>

Lasher, William, R., 2003, Practical Financial Management, Edisi ke 3, South-Western: Thompson Learning.

Lauterbach, Beni., and Vaninsky, Alexander, 1999, Ownership Structure and Firm Performance: Evidence from Israel, *Journal of Management and Governance* 3, 189 – 201.

Leland, Hayne E., and David H. Pyle, 1977, Informational Asymmetries, Financial Structure, and Financial Intermediation, *Journal of Finance*, Vol. XXXII, No. 2. 371-387.

Lemmon, Michael L., and Lins, K.V., 2003, Ownership struktur, Corporate Governance, and Firm Value: Evidence from the East Asian Financial Crisis, *The Journal of Finance* (August) Vol LVIII, No.4.,

Swasembada (SWA Magazine), No.21/XIX/Okttober 2003

Masulis, Ronald. 1983, The Impact of Capital Structure Change on Firm Value: Some Estimates. *Journal of Finance*, vol. 38, 107-126.

Modigliani, F., and Miller, M. H., 1958. The Cost of Capital, Corporation Finance and the Theory of Investment, *The American Economic Review*, 13(3), pp 261-297.

Mulyadi, 1993. Pengukuran Kinerja Keuangan Dengan Pendekatan Economic Value Added (EVA), *Edisi Millenium*, Yogyakarta: Bagian Penerbitan Sekolah Tinggi Ilmu Ekonomi YKPN.

Murali, S. C. and Welch, J. B., 1989, Agent, Owner, Control and Performance, *Journal Business Finance and Accounting*, 16(3), pp 385-398.

Myers S.C., 1977. Determinants of Corporate Borrowing, *Journal of Financial Economics* 9 (November), 147-176.

-----, S.C., 1984, Capital Structure Puzzle, *Journal of Finance*, 39(3), July, pp 575-592.

-----, and N.S. Majluf, 1984, Corporate Financing and Investment Decisions When Firms Have Information that Investors Do No Have, *Journal of Financial Economics*, Vol. 13, 187-221

Ozkan, A., 2001, Determinant of Capital Structure and Adjustment to Long Run Target: Evidence from UK Company Panel Data, *Journal Of Business Finance & Accounting*, Vol. 28 (1) & (2), 175-198.

Penman, David, 2001, Capital Structure Choice and Firm Performance, *Journal of Financial Management*. Winter, pp. 48-72.

Poeradisastra, 2003, *Financial Management and Policy*, 2nd Edition, New York: The Dryden Press.

Ross, Stephen A., Randolph W. Westerfield, and Jeffrey Jaffe, 2002, *Corporate Finance*, International edition, Singapore: Irwin/McGraw Hill.

Rozeff, Michael S. 1982. Growth, Beta, and Agency Cost as Determinants of Dividend Pay Out Ratios, *Journal of Financial Research*, 5, pp 249-259

Saiful M. Ruky, 1997. Lebih Dalam Tentang Economic Value Added (EVA). dan Penciptaan Nilai Perusahaan. *Usahawan No. 9, Tahun XXVI, September 1997.*

Scott, 1977, Bankruptcy, Secured Debt, and Optimal Capital Structure, *Journal of Finance* 32 (March), 1-20.

Shleifer and Vishny, 1986. Agency Conflict in Public and Negotiated Transfers of Corporate Control. *The Journal of Finance*. Vol. LV, No. 2, April 1986

Shyam. Sunder L. and S.C. Myers. 1999. Testing Static Trade-off Against Pecking Order Models of Capital Structure, *Journal of Financial Economics*. Vol. 51, 219-244.

Solihah, Luis dan Taswan. 2002. Pengaruh Kebijakan Hutang Terhadap Nilai Perusahaan Setia Beberapa Faktor yang Mempengaruhinya, *Jurnal Bisnis dan Ekonomi* Vol. 9 No. 2 (September 2002). 149-163.

Stewart, G. Bannet. 1991. *The Quest of Value. A Guide for Senior Manager*, International Edition, New York: Harper Business.

Stultz, R.. 1990. Managerial Discretion and Optimal Financing Policies, *Journal of Financial Economics*. Vol. 26, 3 -27.

Tilman and Wessels. 1988. The Determinants of Capital Structure Choice, *The Journal of Finance* 43 (March) No.1, 1-19

Trueman, B.. 1986. The Relationship Between the Level of Capital Expenditure and Firm Value. *Journal of Financial & Quantitative Analysis*, Vol. 21, pp. 115-129.

Trulley, Shawn. 1993, *The Real Key to Creating Wealth*, Fortune, September 20, 1993.

Wahidahwati. 2001. Pengaruh Kepemilikan Manajerial dan Kepemilikan Institusional pada Kebijakan Hutang perusahaan: Sebuah Perspektif Teori Agency (Paper). Simposium Nasional Akuntansi IV. p.1084-1105.

Wald, John K.. 1999, How firm Characteristics Affect Capital Structure: An International Comparison, *Journal of Financial Research*. Vol. 22, No. 2, 161 - 187.

Warrren, Thomas. 1999. *Principles of Financial Management*. International Edition, New York: Harper Business.

Welch, Emma, 2003. The Relationship Between Ownership Structure and Performance in Listed Australian Companies, *Australian Journal Management*, Vol 28, No. 3 (December). 287-305.

Weston, J. F. and Thomas E. Copeland, 1992. *Managerial Finance*, 9th edition, New York: Dryden Press.

## INTERNATIONAL JOURNAL OF BUSINESS, MANAGEMENT AND ECONOMICS

### INSTRUCTIONS TO AUTHORS

Those, who would like to contribute to the Journal should pay attention to the following publication rules:

1. Papers should be submitted in English Language.
2. Papers that are submitted to the Journal should not be under review at any other journal(s).
3. The first page of the manuscript should contain the following information:
  - The title of article
  - The name(s) and institutional affiliation (s) of the author (s)
  - The address, telephone and the fax numbers as well as the e-mail address of the corresponding author (s), and
  - Abstract of 100 words
4. Manuscripts may be typewritten on paper (8 1/2" x 11" inches, 22x29 cm), with 1 inch/ 2, 5cm margins on all sides. All sides should be double - spaced, including references and figure captions; quotations exceeding three lines should be single spaced and left-right indented. Page numbering should be consecutive throughout the manuscript.
5. Notes should be kept to a minimum and appear at the bottom of the page. They are required to be numbered consecutively and indicated in the text by superior numbers.
6. References should be listed alphabetically at the end of the paper. They should be cross-referenced in the text by using the author's last name and publication date in the style of (Eustache: 2001) or (Eustache, 2001: 50).
7. Tables numbered consecutively with Arabic numerals and have titles. All footnotes for tables and their sources should be placed under the tables.
8. Displayed formula should be numbered consecutively throughout the manuscript as (1), (2), etc. against the right hand margin of the page.
9. Charts and diagrams are all to be referred to as 'figure(s)' and should be numbered consecutively with numerals in order to which they are referred. Figures should become ready, with Arabic Numerals and have titles.

The manuscript should conform to the Journal style which follows rules found in the Publication Manual of the American Psychological Association and University of Chicago, Chicago Style Works Cited or references. For more specific cases please visit <http://www.apa.org/journals/webref.html>.

**Editor - In - Chief**

Orhan İÇÖZ

**Associate Editors**

Cengiz PINAR  
Kutlu ZORAL  
Edip TEKER  
Ö. Baybars TEK  
İge PIRNAR  
Musa PINAR  
Çağrı BULUT

**Assistant Editors**

Bora BODUR  
Senem YILMAZ  
Saban ÇELİK  
Onur İÇÖZ