JOJAPS

KEMENTERIAN PENDIDIKAN MALAYSIA

eISSN 2504-8457

Journal Online Jaringan Pengajian Seni Bina (JOJAPS)

Influence of Tangibility and Institutional Ownership on Sector Company Capital Structure Basic Industry and Chemistry Registered in Indonesia Stock Exchange

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Abstract

This study aims to determine the effect of tangibility and institutional ownership on the capital structure. This research using census research method, which includes all basic and chemical industry companies listed on the Indonesia Stock Exchange which have met the criteria in the observation data. Observation period of research data from 2008 to 2010 which involved 30 companies. The analytical method used was multiple linear regression. The results of this study found that accessibility did not affect the capital structure, while institutional ownership had a positive effect on capital structure.

Keywords: Capital structure, tangibility, institutional ownership.

1. Introduction

The phenomenon of capital structure is generally experienced by every company. Debt or issuing new shares is a choice of sources of funds that must be chosen by the company to fulfill its capital structure. The portion of debt or issuing new shares is the most important thing that needs to be observed by company managers. Sources of funds collected by managers must be efficient. Debt or issuing new shares has consequences in the form of capital costs. Each source of funds chosen must be able to minimize the cost of capital that must be borne by the company. If the company uses debt, the cost of capital that arises is the interest of the loan set by the creditor. Whereas if the company issues new shares, the capital costs incurred are administrative costs when managing the issuance of new shares and dividend distribution to prospective shareholders.Companies that have a capital structure in the form of high debt have the potential to not be able to pay off interest and principal loans. This has the potential for a negative outlook among investors. The company is suspected by investors of financial distress, so investors are not interested in invest in capital. Companies that have a capital structure in the form of low debt have the potential to issue new shares. This will lead to the cost of issuing new shares that will reduce capital. In anticipation of reducing capital due to payment of interest expenses and the cost of issuing new shares, a balance between the composition of debt is needed by issuing new shares. A balanced debt composition is an alternative so that the company does not issue new shares because of its high cost of issuing new shares. This will be a consideration for the company, so that the company's capital costs do not increase. Financial decisions need to be taken by companies to determine whether to use debt, issue new shares, or use both to fulfill their capital structure. The decision must pay attention to the costs and benefits arising from each source of funds to be chosen. Each source of funds, whether debt, issuing new shares, or both have different consequences.

2. Library Review

Capital structure

Capital structure is a mix of debt, preferred stock, and common stock (Brigham and Houston, 2001). The mix is a composition of debt and shares that will be used as resources in carrying out company activities. The same thing was expressed by Ross (1999) who explained that, capital structure is a combination of debt and capital used by companies to fund their operations. Capital structure is defined as diverse. In the United States capital structure is generally defined in the form of long-term debt ratios (Widjaja, 2008). This was also seen in several researchers in Indonesia, Prabansari (2005), and Kesuma (2009) who proxied capital structure as long-term debt in their research on capital structure. In a number of countries, especially developing countries, companies use both short-term debt and long-term debt to fund their assets, including current assets. Generally, companies in developing countries replace their short-term debt with long-term debt. Therefore, it is more suitable and especially in the context of a developing economy such as Indonesia, defining capital structure as the ratio of total debt (Widjaja, 2008).

Tangibility

Tangibility is a comparison of fixed assets and total assets (Supriyanto, 2008). The amount of fixed assets can be used as collateral for corporate debt. This is also stated by Brigham (2001) that in general companies that have collateral for debt will be easier to obtain debt than companies that have no collateral for debt. Brigham (2001) states that tangible asets are collateral (collateral) and present a level of security against creditors from the event of financial distress. This is also a protection against lenders from moral risk problems caused by conflicts that may occur between creditors and investors. Investors will always give loans if there is a guarantee. Creditors generally ask for security and guarantees to reduce the level of conflict of interest between them and shareholders.

3. Thinking Framework And Hypothesis Development

Institutional Ownership

Institutional ownership is the ownership of shares from external companies in the form of institutions, such as other companies or other institutions (Soesetio, 2008). Institutional ownership is a portion or percentage of the company's shares owned by an entity or institution outside the company against the total shares issued by the company. Institutional ownership has a certain percentage level in the company. In general institutional ownership has a high level and controls the majority of the company's shares. This is because the institutions have large funds rather than other ownership (Soesetio, 2008). A high level of institutional ownership will lead to greater oversight efforts by the institutional side of the company, so that it can hinder manager's opportunistic behavior. Shleifer and Vishny (1986) state that large share ownership by institutional parties will have incentives to monitor company decision making. This connects the behavior of large shareholders to take over administrative tasks on poor agent performance. If institutional parties are not satisfied with the performance of agents, they directly sell their shares by following the policy of "exit" (Sihombing, 2001).

Tangibility and its connection to Capital Structure

Tangibility is a comparison of fixed assets to total assets (Supriyanto, 2008). Fixed assets must be able to provide repetitive benefits and normally are expected to last more than one year. Reliability functions as collateral to obtain a source of funds in the form of debt from creditors to meet the capital structure. The greater the tangibility of the company, the greater the guarantee then the greater the guarantee that the company will show to creditors. In addition, tangibility serves as a protector for creditors in anticipating the occurrence of conditions in the company's financial difficulties. Companies that have large tangibility will use large debt as well. This is because creditors dare to lend and do not doubt the occurrence of moral risk problems caused by conflicts that may occur between creditors and investors (Supriyanto, 2008). The greater the tangibility that the company has, the greater the debt that the company can collect So the first hypothesis is, tangibility has a positive effect on the company's capital structure.

Relationship of Institutional Ownership with Capital Structure

Institutional ownership is the ownership of shares of the company's external parties in the form of institutions, such as the ffective supervision from institutional ownership will take over the role of debt as a means of controlling management, thus causing the use of debt to decline (Widjaja, 2008). Haryono (2004), Murni (2007), and Indahningrum (2009) found that institutional ownership has a positive effect on capital structure. This shows that institutional ownership has a greater power than other ownership to tend to choose risky projects. The hope of the decision is that the company will get a bigger profit. To run the project, the company chooses a capital structure in the form of debt with financial distress consequences if the project fails. However, if the project is successful, the shareholders will get a large share.

While creditors only get a certain amount in the form of interest and principal loans. Different results were found by Soesetio (2008), Widjaja (2008), and Yeniatie (2010). They found institutional ownership had a negative effect on capital structure. This shows that, institutional ownership will oversee company managers about the selection of sources of funds in the form of debt. As a result of this supervision, the debt will decrease. So the second hypothesis is that institutional ownership has a negative effect on the company's capital structure.

This research is hypothesis testing, namely testing the tangibility and institutional ownership variables on the company's capital structure. The fluctuations in capital structure have the potential to be caused by the two independent variables. The intervention of researchers in this study is low, meaning that researchers do not influence the conditions in the company in determining capital structure. The unit of analysis in this study is an individual company. The unity of the data collected is the individual financial statements of basic industrial and chemical companies listed on the Indonesia Stock Exchange (IDX). The time horizon in this study is a balanced panel data (balancepooled data), i.e. Determination of Research Population combination of time series data and datacross sectional (Gujarati, 2003: 637). This is the basic and chemical industry companies listed on the Indonesia Stock Exchange (IDX) from 2008 to 2010 that met the criteria. The company has a high political risk (Hackton, 1996), this condition makes investors behave conservatively in investing. This is because investors are worried that they will threaten their investments, thus potentially affecting the company's capital structure.

4. Methodology

This research is hypothesis testing, namely testing the tangibility and institutional ownership variables on the company's capital structure. The fluctuations in capital structure have the potential to be caused by the two independent variables. The intervention of researchers in this study is low, meaning that researchers do not influence the conditions in the company in determining capital structure. The unit of analysis in this study is an individual company. The unity of the data collected is the individual financial statements of basic industrial and chemical companies listed on the Indonesia Stock Exchange (IDX). The time horizon in this study is a balanced panel data (balancepooled data), i.e. Determination of Research Population combination of time series data and datacross sectional (Gujarati, 2003: 637). This is the basic and chemical industry companies listed on the Indonesia Stock Exchange (IDX) from 2008 to 2010 that met the criteria. The company has a high political risk (Hackton, 1996), this condition makes investors behave conservatively in investing. This is because investors are worried that they will threaten their investments, thus potentially affecting the company's capital structure. The researcher used the Jakarta Stock Industry Clasification (JASICA) as a guideline in classifying companies. This is the classification of the system used to categorize companies listed in the Indonesian Stock Exchange is JASICA (www. Idx.co.id).

Table 1. Population Criteria

Population Criteria	Amount Company
Companies listed on the IDX during the observation period from 2008 to 2010	52
Companies that do not report their full financial statements from 2008 to 2010	-4
Companies that do not have successive profits from 2008 to 2010	-18
Population	**30**

The research data is obtained by downloading from the IDX website, namely at www.idx.co.id. The data used are secondary data, in the form of financial statements as of December 31, 2008 and 2010. Reads to see the capital structure and tangibility of the company, as well as notes to financial statements to see institutional ownership.

Capital structure is measured by comparing total debt with total capital (Rodoni, 2008).

Tangibility is measured by comparing fixed assets with total assets (Supriyanto, 2008). Institutional ownership is measured by comparing the number of shares held by parties by the institution with the total shares outstanding (Yeniatie, 2010).

To test the success of the hypothesis, multiple linear regression was used with the help of Statistical Software Package for the Social Science (SPSS) with the following equation :

$$Y = \alpha + \beta 1X1 + \beta 2X2 + e$$

Remarks :

Y; capital structure,

α; constants,

β1 & β2; regression coefficient,
X1; tangibility,
X2; institutional ownership,
e; epsilon (error term).

5. Research Results And Discussion

Furthermore, the results of hypothesis testing can be seen in Table 2.

Table 2 . Hypothesis Testing Results

Model	Unstandardized Coefficients		Standardized Coefficients	Sig.
	B	Std. Error	B	
(Constant)	-0,77	0,667	–	0,251
Tangibility	1,361	0,764	0,183	0,079
Instituinal ownership	1,887	0,841	0,231	0,027
R = 0,315[a]			*Predictors* :	
R Square = 0,99			Tangibility, Institutional ownership	
Adjusted = 0,078			*Dependent Variable* :	
			Capital Structure	

Based on table 2, the results of the study are as follows:

The Effect of Reliability on Capital Structure

Based on Table 2, the significance value is greater than the significant level (0.079> 0.05), then it is rejected. This means that tangibility does not affect the company's capital structure. This result shows that the tangibility of basic and chemical industry companies during 2008 to 2010 does not function as a guarantee to obtain debt from creditors. The results of this study are consistent with Elim (2010) and Seftianne (2011) finding tangibility does not affect the company's capital structure. The results of this study are different from those of Titman (1988), Rajan (1995), Supriyanto (2008), Widjaja (2008), Joni (2010), and Yeniatie (2010). They find tangibility influences the capital structure, with the direction of positive influence. The results of this study also differ from the trade off theory which states that, companies that have large tangibility should have a large debt target as well. This big debt target must be rational, so that the possibility of financial distress can be minimized. Not like MM theory which seems to encourage companies to owe as much as possible, without rational targets it causes the possibility of financial distress to occur very much (Fadhilanahal, 2007).

b. Effect of Institutional Ownership on Capital Structure

Based on Table 2, institutional ownership has a significantly smaller value than the significant level (0.027 <0.05), so it is accepted. That is, institutional ownership influences the company's capital structure, with a direction of positive influence. These results indicate that institutional ownership has a greater strength than other ownership. This large power causes institutional ownership to tend to choose risky projects. The hope of the decision is that the company will get bigger profits. To run the project, the company chooses a capital structure in the form of debt with financial distress consequences if the project fails. However, if the project is successful, the shareholders will get a large share. While creditors only get a certain amount in the form of interest and principal loans. The results of this study are in accordance with the research of Haryono (2004), Murni (2007), and Indahningrum (2009). They found that institutional ownership influences the capital structure of the company, with the direction of positive influence. Institutional ownership will increase the company's capital structure.

The results of this study do not support agency theory which states that agents (managers) need to be monitored so as not to use debt too high. The purpose of such supervision is to avoid increasing capital costs. this research is not in accordance with the research of Soesetio (2008), Widjaja (2008), and Yeniatie (2010). They find institutional ownership influences the capital structure, with a negative direction of influence. Dominant institutional ownership in the company will have an impact on greater oversight efforts. Managers are supervised not to take actions that are not in accordance with the willingness of shareholders. The consequence of this oversight is that debt will decline.

6. Conclusion and Limitations

a. Conclusion

Based on the results of tests that have been found, conclusions can be taken as follows :
1) Tangibility does not affect the company's capital structure.
2) Institutional ownership has a positive effect on the company's capital structure.

b. Limitations

This study has several limitations, as follows
1) This study only uses two independent variables, even though there are still other non-bound variables related to the company's capital structure.
2) This research is only carried out on basic industrial and chemical companies which are sub-sectors of secondary sector (manufacturing) companies, so as yet :
   a) To covers the entire existing company sector.
   b) The observation period of 2008 to 2010 is considered relatively short, so the measurement of capital structure with the total debt proxy does not reflect the actual condition of the company's capital structure.

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