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Effect of Shareholding Structure, Internal Factors, External Factors on Capital Structure and Value of the Company in Manufacturing Company in Indonesia Stock Exchange

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Abstract: This research examined the influence of ownership structure, internal factor, external factor and capital structure on value of the manufacturing firm in Indonesia Stock Exchange. This is argue that unlike the agency problem in developed stock market, the agency problem in Indonesia Stock Exchange is the divergence of interest between the minority holders and majority holders. This is because the Indonesia Stock Exchange is characterized among other things, by the domination of large shareholder. It is hypothesis that: there are the impact of ownership structure, internal factor, external factor on capital structure, there are the impact of ownership structure, internal factor, and external factor on value of the firm, there are the impact of capital structure on value of the firm. Results of this study hope to contribute theoritically and practically. Theoretically contribution is bounded to examine the Agency Theory, Trade off Theory and Signalling Theory. Results of the study to indicate that practice public company In Indonesia Stock Exchange is not support the Agency Theory and support Trade off theory and Signaling theory. Practical contribution is bounded in the institution, like BAPEPAM and The Indonesian Stock Exchange Management.

Keywords: ownership structure, internal factor, external factor, capital structure, value of the firm.

I. INTRODUCTION

The value of the firm is an important concept for investors because it is an indicator of how the market is valuing the company as a whole. The high value of the company will be followed by high prosperity of the shareholders (Brigham and Gapenski, 1996). Value of the firms are also affected by factors including the company's capital structure, the relationship between the principal with management and the company's ability to generate profit (Agrawal, 1994). The higher the value of the company, the higher the wealth of shareholders, Bringham and Gapenski (1996). Problems capital structure is a very important issue for any company, because of the good and bad capital structure will have a direct effect on the financial position of the company. A company which has a bad capital structure and a huge debt will give a great burden to the companies concerned (Chaganti and Damanpour, 1991).

The Ownership structure illustrates the composition of government ownership, institutional or public, foreign, or managerial families of a company. The ownership structure is believed to influence the course of the company, which in turn affect the company's performance in achieving the company's goal to maximize the value of the company. Variables in the group of internal factors that can be identified in several indicators, among others, ie, liquidity, profitability, activity and growth. Indicators of liquidity is one of the internal variables that can be controlled by the relative corporate management in running the business. Profit is an indicator of profitability or symbols used to express the profitability turned out to be statistically significant at the alpha level of 1% (-24.28148). Indicators of activity ratio according to Homaifar, Zietz, and Benkato (1994), is a ratio that describes the activities of the company in running its operations both in the activities of sales, purchases and other activities. An indicator of growth, according to Maurer and Triantis (1994) was how far companies put themselves in the overall economic system or economic system for the same industry. Inflation is an economic indicator that illustrates the falling value of the rupiah, and the condition is characterized by increasing the price of goods on the market. The interest rate is the price that must be paid on the loan capital and dividends and capital gains that result from equity capital (Hossein, Massoud and Chadegani, 2013).

This study examines the effect of ownership structure, internal and external factors on capital structure and on the value of the company as well as the effect of capital structure on firm value. While previous studies have not integrated on the three latent variables such as determinant of capital structure and corporate value, and capital structure as determinant of the value of the company. This study also examines the effect of each variable observable to capital structure and corporate value. Observable variables ownership structure consists of managerial ownership and institutional ownership.

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Observable variable internal factors consist of: liquidity, profitability, activity and growth. Observable variable external factors consist of: interest rates, foreign exchange rates, and inflation. On the basis of previous empirical studies theoretically be strong reasons researchers to conduct research with the theme *effects of shares ownership structure, internal factors, external factors against capital structure and corporate value.*

Based on the above-mentioned problem, the problem is formulated as follows: (1) Does the ownership structure significantly influence the capital structure Manufacturing Company in Indonesia Stock Exchange?, (2) Does the internal factors have a significant effect on the capital structure Manufacturing Company in Indonesia Stock Exchange?, (3) Does external factors have a significant effect on the capital structure Manufacturing Company in Indonesia Stock Exchange?, (4) Does the ownership structure significantly influence the value of the company in Manufacturing Company in Indonesia Stock Exchange?, (5) Does the internal factors significantly influence the value of the company in Manufacturing Company in Indonesia Stock Exchange?, (6) Does the external factors significantly influence the value of the company in Manufacturing Company in Indonesia Stock Exchange? As well as (7) Does the capital structure significantly influence the value of the company in Manufacturing Company in Indonesia Stock Exchange?

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II. OBJECTIVE AND BENEFITS RESEARCH

The aim of this study is to test empirically: (a) Effect of ownership structure on the capital structure Manufacturing Company in Indonesia Stock Exchange, (b) Internal factors influence the capital structure of the company Manufacturing Company in Indonesia Stock Exchange, (c) The influence of external factors on capital structure Manufacturing Company in Indonesia Stock Exchange, (d) Share ownership structures that influence the value of the company on the Stock Exchange Manufacturing Company in Indonesia, (e) Internal factors influence the value of the company on the Stock Exchange Manufacturing Company in Indonesia, (f) The influence of external factors on the value of the company on the Stock Exchange Manufacturing Company in Indonesia, and (g) The influence of capital structure on firm value on Manufacturing Company in Indonesia Stock Exchange.

The benefits of this research are (a) As a basic policy of capital structure in determining the proportion of funding sources of debt and equity for companies manufacturing in Indonesia Stock Exchange, (b) As a basis for improvement of the performance of the company to increase the value of industrial manufacturing company in Indonesia Stock Exchange, and (c) Provide input for the institution in Indonesian capital market regulator in making policies and regulations, particularly to protect investors and minority shareholders.

III. REVIEW OF LITERATURE

The company's main purpose is to increase corporate value through increased prosperity of the owners or shareholders (Bathala, Moon and Rao, 1994),). To increase the value of the company by way of setting the company's financial activities, called financial management. Financial management involves planning, analysis and control of the financial activities undertaken by financial managers. Financial management can be grouped into two main activities, namely the activities of the funds and activities seek sources of funding, which is often referred to as a function of financial management (Gowey GT. And Hanka Gordon, 1999). Decisionin finance principle involves three things, namely investment decisions, a decision the fulfillment of funding (financing decision), and the decision of profit distribution.

According to the agency theory (Jensen and Meckling, 1976), stated that the company separates the functions of management with ownership function would be vulnerable to the agency conflict. The causes of conflict between managers and shareholders of which are related to the decision-making; (1) fund raising activities (financing decision) and (2) Decision-making relating to how the proceeds are invested. Thus Managerial Ownership and Institutional investors can influence the decision of whether the fund raising through debt or right issue. If funding is obtained through debt means debt-to-equity ratio will increase, so that ultimately will increase the risk.

Rajan and Zingales (1995) developed a theoretical model and signalling Companies that have good fundamental factors such as high liquidity, high profitability, high ratio activity and earnings growth, high dividend and assets showed a signal to creditors that the company has good fundamentals so that lenders will be more confident in giving credit. Besides, a good fundamental performance is also considered as a signal about the prospects of a good company so that investors will be interested in buying shares of the company as such. Companies that have a large debt is also a signal of the company entrusted by creditors so that investors will respond positively to the company believed the investor.

The value of the company with regard to the flow of earnings/cash flow generated where cash flow can be derived from operating activities, financing activities and investing activities as proposed by Leland and Toft (1996), which is described as follows: (1) Operating activities, such as sales growth in sales, payments to suppliers, employee, taxes and interest, (2) Financing activities such as the issuance of new debt, new debt issuance, the issuance of new preferred stock issuance of new ordinary shares, and dividend payments, (3) Investing activities, such as new investment in land, plant and equipment, as well as the acquisition of new businesses, investments in working capital.

Modigliani and Miller (1958) argued in the first proposition, that the value of each company is capitalized net operating income expected or expected net operating income (NOI = EBIT) with a capitalization rate constant corresponding to the level of risk the company. Required level of profits and the value of the company for which one hundred percent capital consists of equity or unlevered firm, according to Modigliani and Miller (1961) did not depend on or are not influenced by the structure. In the second proposition, Modigliani and Miller found that the company's own capital costs have leverage is equal to the cost of equity capital companies which do not have the leverage plus a risk premium. The size of the risk premium depends on the difference between the cost of equity and cost of debt companies that have leveraged multiplied by the amount of the debt by not account for taxes or no taxes under conditions (T = 0). This was confirmed by Slovin, Myron and Sushka, (1993): If the larger corporate debt, the cost of equity capital is also getting bigger. This is because the risks faced by the owners of their own capital grew, so the owners of capital companies expect the level the greater the profit.

According to Fischer and Heinkel (1989) has the intrinsic value of a security that the price adjustment for securities when the primary factors of the value note. Intrinsic value shows the present value of the expected cash flows of the stock. In the structure of share ownership to be shot for Managerial Ownership and Institutional Ownership, research on the relationship of share ownership structure with the company's capital structure has done a lot of research. The study is generally used as an element of managerial ownership and the ownership structure they found different results.

The internal factors consist of liquidity, profitability and growth activity: (a). The company's liquidity relating to the company's ability to meet its short term obligations, (b) Profitability reflects the company's ability to generate profits, and (c) Growth according Domian, Gilster, and Louton (1996) was how far companies put themselves in the overall economic system or economic system for the same industry. Eksteral factors are difficult to control by the company. External factors consist of the development of the SBI interest rate, foreign exchange rate and inflation: (a) The interest rate used is the SBI interest rate as the benchmark interest rate to determine the macro-economic stability, (b) Foreign currency exchange rates used to determine the macroeconomic stability related to the international balance of payments position and the current account deficit, (c) Inflation is used to measure the extent to which people's purchasing power in the purchase of goods and shows how far the competitiveness of enterprises in determining the selling price after considering the factors of production costs.

IV. METHOD OF RESEARCH

This study population is a manufacturing company listed on the Indonesia Stock Exchange (BEI).

The sampling technique used by the authors is non-probability sampling. According to Hair et al., (1995), as well as Indriantoro and Supomo (1999), non-Probability Sampling is a sampling technique that does not provide opportunities or equal opportunity for each element or member of the population to be selected into the sample. In this study into consideration in the selection of the sample are those companies that meet the following criteria:

Table 1. Sample Selection Criteria

Sample selection criteria	Number of Firm
Manufacturing companies listed on the Stock Exchange consistently from year 2010-2012	131
Manufacturing companies that do not pay dividends consistently	(27)
Companies that do not have institutional ownership	(15)
Companies that do not have managerial ownership	(14)
Total Sample	75

Source : BEI (2012)

In this study there were five concepts studied, namely the shareholding structure, internal factors, external factors, capital structure and corporate value, which is divided into two three endogenous variables and exogenous variables. Data used as research material is secondary data, which consists of: (1). Inflation end of 2010 to 2012, (2). Summary financial data in ICMD particularly manufacturing firms from 2010 to 2012, (3). The rupiah against the US dollar late in 2010 until 2012, and (4). The SBI interest rate during 2010 to 2012. This study uses analysis tools with Structural Equation Modeling (SEM) the reason are: (1). In terms of the model form, look for causality for example tiered capital structure so to asset productivity, financial performance and corporate value. With so many relationships and existing levels, can only be solved with the help of the form of structural models that Structural Equation Modeling (SEM), (2). Of the variables that exist, there is a latent variable .With the latent variables in the model, then the method of analysis that can be used only Structural Equation Modeling (SEM).

V. RESULT AND DISCUSSION

Based on the criteria, then there are 75 companies that meet the requirements and at the same time as the sample in this study. Data were collected from 75 companies during the three years from 2010 until 2012, so we get the data pooling analysis unit n = 3 x 75 = 225. Thus the major assumptions n desired method of data analysis with SEM, namely n = 100, can fulfilled.

The results ofthe evaluation model shows that the model is fit to be used further analysis.

Table 2. Hypothesis Testing Results

	Variable relationship	Coefficient	P-Value	Explanation
H1	SKS(X1)→share structure(Y1)	0.026	0.006	Significant
H2	Intern factor (X2)→share structure (Y1)	0.068	0.004	Significant
H3	External factor (X3)→share structurel(Y1)	-0.452	0.006	Significant
H4	SKS(X1)→firm value (Y2)	0.214	0.005	Significant
H5	Internal factor(X2)→firm value(Y2)	0.922	0.006	Significant
H6	External factor(X3) → firm value(Y2)	-0.318	0.001	Significant
H7	Share structure (Y1) → firm value(Y2)	-0.319	0.002	Significant

Source : Primary Data, 2012.

Information obtained in Table 2 above will serve to guide the test hypothesis is as follows: (a) Effect of ownership structure on the capital structure, Path coefficient ownership structure influences the capital structure is of 0.026 with p value 0.006 <0.050. The results support the first hypothesis (H1) and can be accepted as true. (b). Internal factors influence the capital structure, Path coefficient of internal factors influence companies on capital structure amounted to 0.068 with p value of 0.004 <0.05. Results of this study support the second hypothesis (H2) and can be accepted as true. (c) The influence of external factors on capital structure, Path coefficient influence of external factors on the capital structure is at -0452 with p value 0.006 <0.05. (d) The results support the third hypothesis (H3) and can be accepted as true, Path coefficient influence the shareholding structure of the company's value is equal to 0214 with 0.005 p value <0.05. The results support the hypothesis fourth (H4) and can be accepted as true. (e) Internal factors influence the value of the company, Path coefficient company's internal factors influence the value of the company is equal to 0.922, with p value 0.006 is less than the alpha level 0:05. The results support the hypothesis fifth (H5) and can be accepted as true. (f) The influence of external factors on the value of the company, Path coefficients external factors on the value of the company is equal to -0318 with p value 0.001. The results support the hypothesis sixth (H6) and can be accepted as true, (g) The influence of capital structure on firm value, The path coefficients influence of capital structure on firm value is equal to -0319 with a p value of 0.002. The results support the hypothesis seventh (H7) and can be accepted as true.

Effect of shares ownership structure through the capital structure on firm value. The direct effect of share ownership structure on firm value obtained significant coefficient of 0.214, while the indirect influence of X 0.026 (-0.319) = -0.0083, so in order to increase the value of the company more effectively through direct influence as a score greater coefficient (0.214 significant), while through the mediation of the capital structure, the effect of visual significant.

The influence of internal factors through the capital structure on firm value. The direct effect of factors internal to the firm value obtained significant coefficient of 0.992, while the indirect effect of 0.068 x (-0.319) = -0.021692, so in order to increase the value of the company more effectively through direct influence as a score greater coefficient (significant .992) , while through the mediation of the capital structure, the effect of visual significant.

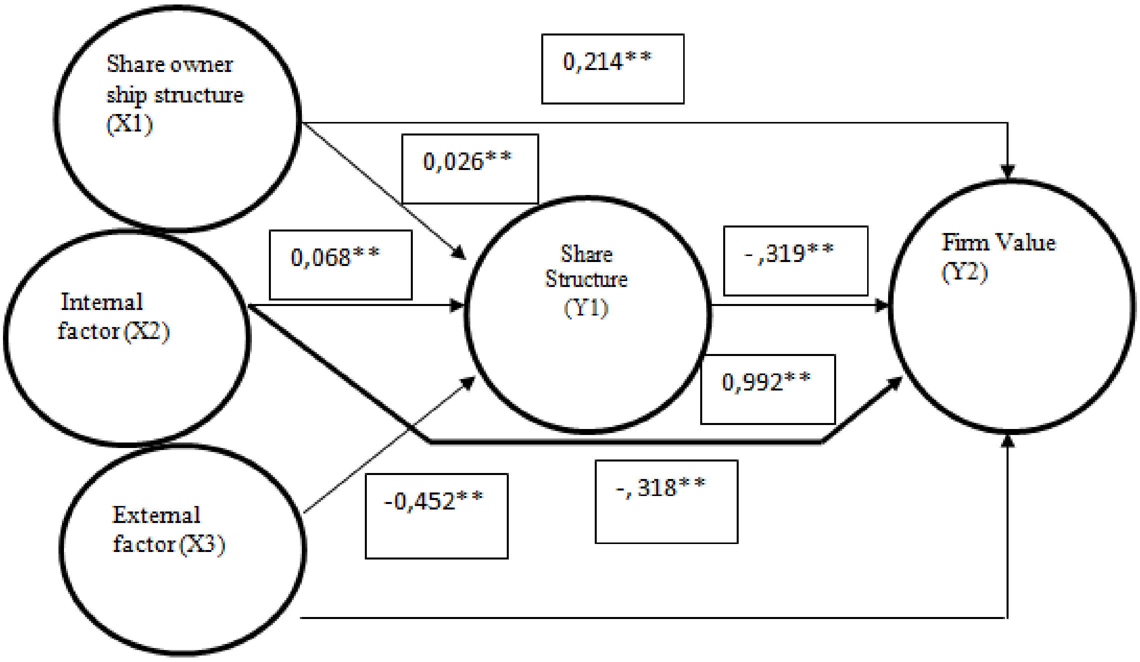
The influence of external factors through the capital structure on firm value. The direct influence of external factors on firm value obtained coefficient of - 0.318 significantly, while the indirect effect of (-0.452) X (-0.319) = -0.1442, so in order to enhance the corporate value of both line is not effective, because it has a negative sign, Direct influence with the score coefficient (-0.318 significant), whereas through the mediation of capital structure, the effect of -0.021692 not significant. That means, in order to increase the value of the company both lanes are not effective. Based on the results of the above discussion relating to the results obtained from the research hypothesis testing. Relationships between variables research, either directly or indirectly, can be structured as follows:

Table 3. Effect of Direct and Indirect Influence

The influence/relationship	**Coefficient line (P *value*)**	
	(Direct Effect)	***(Indirect Effect)***
Capital ownership structure→ Firm Value	0,214**	
Internal factor→ Firm value	0,992**	
External →firm value	-0,318**	
Capital ownership structure→ Share structure→ firm value		0,026 X (-0,319) = -0,0083
Internal factor→ Share structure→firm value		0,068 X (-0,319) = -0,021692
External factor→ Share structure→ firm value		(-0,452) X (-0,319) = -0,1442

Source : Primary Data, 2012.

Based on the results of the study hypothesis testing can visualize the results after the Model of SEM below:



VI. CONCLUSION

Based on the previous description, it can be seen that in this study produced some findings as (1) Variable share ownership structure significantly influence the capital structure on manufacturing companies listed on the Jakarta stock exchange. So the first hypothesis (H1) can be accepted as true, (2) Variable factors significantly influence the company's internal capital structure at manufacturing companies on the stock exchanges in Indonesia. So Hypothesis 2 (H2) can be accepted as true, (3) Variable external factors significantly influence the capital structure at a manufacturing company in Indonesia Stock Exchange, so the hypothesis 3 (H3) can be accepted as true, (4) Variable ownership structure significantly influence the value of the company at a manufacturing company in the Indonesia Stock Exchange, thus hypothesis 4 (H4) can be accepted as true, (5) Variable internal company factors significantly influence the value of the company at a manufacturing company in Indonesia Stock Exchange, so the hypothesis 5 (H5) can be accepted as true, (6) Variable external factors significantly influence the value of the company at a manufacturing company in Indonesia Stock Exchange, so the hypothesis 6 (H6) can be accepted as true, (7) Variable capital structure significantly influence the value of the company at a manufacturing company in Indonesia Stock Exchange, so the hypothesis 7 (H7) can be accepted as true. Practical Findings are (1) It can be recommended is that managers need to pay attention to the importance of policy settings ownership structure, ownership both institutional and managerial ownership will have a direct impact on the increase in value of the company, which is reflected in the PER and PBV, the better, (2) This recommendation needs to be considered is the importance of setting internal factors, because these factors can be controlled entirely by the manager that includes liquidity ratios, profitability ratios, activity ratios, and the ratio of the company's growth. (3) Various things macro conditions can not be controlled and controlled by the manager (external factors) and capital structure to enhance shareholder value is not effective. This macro conditions can not be controlled by management, then on the condition manajemenlebih focus on improving the structure of ownership and internal factors that can be conducted by management This study still has some limitations that are likely to weaken the results. These limitations include the following: (a). The sample used is limited to manufacturing companies listed in Indonesia Stock Exchange that publish financial statements

In the period 2010 to 2012. The company is listed on the Stock Exchange is not only an industrial manufacturing company so that it would weaken the power of generalization to a public company, (b). A period of only three years of research. In addition, researchers also can not control the institutional stock ownership if the company is owned by another company, which may affect the value of the company. The next investigators can consider other factors that affect the likelihood that the relationship between ownership structure with the capital structure, for example the value of the company, managerial compensation in accordance with the results of the testing data and discussion, it can be submitted suggestions to management, as well as the phenomenon of these findings for the investor as follows: (1). It can be recommended is that the owners need to pay attention to the importance of policy settings ownership structure, ownership both institutional and managerial ownership will have a direct impact on the increase in value of the company, which is reflected in the PER and PBV, the better, (2). Management needs to pay attention to the importance of setting internal factors, because these factors can be controlled entirely by the manager that includes liquidity ratios, profitability ratios, activity ratios, and the ratio of the company's growth and (3). The owners and management are suggested to maintain an optimal capital structure that has to be maintained, this condition mennujukan that the optimal capital structure of the company's value increases. The next investigators can consider other factors that may affect the relationship between ownership structure, internal factors, external factors with the capital structure and corporate value, such leverage, managerial compensation / Executive Incentive Plans, and Corporate Control..

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