

DETERMINANT MODEL OF FIRM VALUE

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Abstract

This research is intended to analyze and answer the existence of research gaps among researchers as well as the phenomenon that occurs where leverage as an element of risk is not a concern for institutional ownership and the availability of company liquidity. Another thing is that leverage as an element of risk is not a consideration for capital market investors. This type of research is quantitative descriptive with a panel data multiple regression analysis method using research objects of companies listed on the Indonesia Stock Exchange (IDX) in the Food and Beverage business sector. By using a purposive sampling method, 9 companies were selected. This research formula is to maximize Firm Value through Leverage as an intervening variable. There are two research models that are integrated into one and each goes through model selection test stages, Chow Test, Hausman Test, and Lagrange Multiplier Test. First model results; Ownership Structure can explain the impact that occurs on Leverage and these results confirm the applicable theory. Another result in the first model is not as in the existing theory, namely that Liquidity cannot explain the impact that occurs on Leverage. Second model results; Ownership Structure can explain the impact that occurs on Firm Value while the opposite is true for Liquidity. Leverage as an intervening variable functions to mediate Firm Value. It is hoped that these results can help as a guide for public companies to obtain maximum Firm Value.

Keyword: *Ownership Structure, Liquidity, Leverage, Firm Value.*

1. INTRODUCTION

Company authorities related to company finances are required to be careful in making debt ratio decisions or what is often called determining capital structure. This will be related to the impact it will have, namely achieving the company's goal of maximizing company value or maximizing shareholder prosperity. Regarding capital structure, in Gitman (2009) it is the ratio between the amount of debt and equity.

In Modigliani and Miller (1958), explained about capital structure that assuming no taxes and no transaction costs, company performance is not influenced by the debt policy portion or in other words capital structure does not affect company performance. In its development, Modigliani and Miller (1963) changed their assumptions about its relationship to taxes. The intended change is that the use of debt will have a positive impact on company performance. Myer (1977) also stated the same thing in the trade off theory, that increasing the portion of debt will have a positive impact on company performance, but using optimal point standards. A capital structure position that is below the optimal point will have a positive correlation with company performance, but conversely if it passes the optimal point it will have a negative correlation.

In his study, the optimal point is a balance between costs incurred, tax shield, financial distress, agency costs and the benefits obtained so it is said to be a trade-off. Related to trade off theory, when the debt position is still relatively low, the company's performance, in this case, is that the value of the company can be increased by increasing the amount of debt because this will benefit from interest tax (tax shield-debt). If what happens is a continuous increase in debt, the company's performance will potentially be disrupted due to financial difficulties and have an

impact on the risk of bankruptcy. This happens because the agency cost of debt will be greater than the tax benefits obtained.

The relationship between share prices and company value is that appreciation of share prices in a corporation will have an impact on maximizing company value and shareholder prosperity, Size et al., (2019). Thus, share prices are a medium for the process of increasing company value

The direction of this research is to examine the influence of ownership structure and liquidity on company value with capital structure as an intervening variable. This is motivated by the existence of several studies with inconsistent results between the results of one study and another, such as Margaritis, Psillaki (2010) and Fosu (2013) with Haryono, S. A., et.al. (2017), Attig, et al. (2009) regarding capital structure on company value. The results of research such as Vafeas (1999), Lins (2002) and Morck, et al. (1988), Yermarck (1996) regarding ownership structure on company value.

This research is considered important, considering that a company with a larger ownership structure will indicate a greater level of ability of outside parties to monitor management, which means narrowing the opportunities for fraud by management or narrowing the risk of bankruptcy. Thus, the greater the institutional ownership structure, the more efficient the use of company assets will be, thereby reducing the level of waste by company management, Bathala, et al., (1994).

Institutional share ownership is part of the ownership structure that can influence company value because they actively monitor aspects related to the company's business. Other things can reduce the occurrence of information asymmetry and agency problems so that the subsequent process can improve company performance, Lin and Fu (2017). The role of institutional investors in the context of concentrated ownership with controlling shareholders such as Indonesia is interesting to play. In Thomsen and Pedersen (2000) research results can be explained that institutional ownership has a positive impact on company performance. With the network they have and the level of professionalism in the field of management, institutional ownership has the impact of maximizing company value. The results of research conducted by Hamdani & Yafeh (2010) regarding institutional ownership which is minority ownership often gives rise to conflicts with controlling share ownership, on the other hand they can transform the professionalism of existing governance so that it can produce good business performance. Another different result carried out by Imam and Malik (2007), Zeitun and Tian (2007) is that institutional ownership has no effect on company performance.

LITERATURE REVIEW AND HYPOTHESIS

Agency Theory

Jensen and Meckling (1976) were the first to propose agency theory. The explanation in this theory is to discuss agency relationships as contracts between principals and agents or often referred to as managers. Eisenhardt (1989) uses the basic assumption that managers as humans will be able to act based on an opportunistic nature where personal interests will be dominant so that they do not maximize company value or shareholder wealth but maximize their personal wealth. The occurrence of these differences opens up space for agency conflicts between managers and shareholders.

Other agency conflicts can also occur between shareholders and creditors, as well as between majority and minority shareholders. When majority shareholders act as controlling shareholders so they can influence company policy using the management they have chosen, this action will be detrimental to minority share

ownership. The behavior that often occurs in Indonesia regarding the ownership structure is concentrated or the share ownership is owned by the family. This kind of ownership structure tends to be detrimental to minority shareholders because every company policy will be based on family interests.

Trade-Off Theory

The development of the theory of Modigliani and Miller (1958) was carried out by Myers (1977) which is known as the trade-off theory. What is explained in this theory is that an optimal capital structure can be carried out through a balancing process between the benefits of debt use policies (tax shield benefit of leverage) and the costs of financial distress and also agency problems (Megginson, 1997). Related to this theory, the addition that occurs to debt has the potential to benefit from reduced taxes by the company due to interest payments on debt or often referred to as an interest tax shield. Even though these profits are obtained by the company, the company is faced with an increased risk of bankruptcy as higher bankruptcy costs.

Companies that use funding from debt will be in the process of paying interest, on the other hand, the amount of interest is a tax deduction or is often referred to as a tax deductible. What needs to be controlled by company management is to control the amount of debt so that it does not exceed the optimal value, namely maintaining a balance point between tax profits and bankruptcy costs and agency costs. If the company's policy towards debt exceeds the optimal point, the company will face a level of risk of difficulty paying interest and principal debt, which can result in a risk that is often referred to as financial distress. Thus, in the trade off theory there is a relationship between capital structure and company performance, where the use of debt in the capital structure will be able to increase company performance, but not exceed the optimal point because it will have an impact on the level of decline in company performance.

Institutional ownership

In Kennelly (2000), it is said to be institutional ownership if there is a large percentage of ownership by investors. This institutional ownership will result in increased supervision over the company's performance. A large percentage of shares owned by institutional investors will be able to produce more effective monitoring Jensen (1986). The existence of institutional ownership will be able to reduce the occurrence of agency conflicts, besides that it will also have the ability to control and provide direction to managers in relation to debt policy and dividend distribution.

In Lin and Fu (2017), Pedersen (2000), Hamdani & Yafeh (2010) explain that active institutional investors in monitoring business activities will be able to reduce information asymmetry and agency problems so that it will have a positive impact on improving company performance. ultimately to the value of the company. The same results were also shown in Manzanque et al. (2016), but there were different results in the research results of Zeitun and Tian (2007) and Imam and Malik (2007).

In the process, the ownership structure will have an impact on the capital structure and both have consequences for the company value through share prices. Another thing is that increasing debt will lead to risk although it will also increase the level of return. In Foverskov et al., (2023), there is a positive correlation between ownership structure and capital structure or debt policy. But on the contrary, in Astri Kurnia (2022), ownership structure and capital structure are negatively correlated.

Theoretically, an increase in the ownership structure by institutional ownership will reduce the level of capital structure because this ownership is more dominant in controlling the company's business risk level.

H1: Ownership Structure Influences Capital Structure.

Thomas et al. (2014), Hossain and Ayub (2012), Wahab and Nur (2014), Watung et al. (2016), Andasari et al. (2016), and Widayant et al. (2016) in their research found that liquidity has a negative effect on capital structure. Another result in Bhatia and Manish (2016) is that liquidity has a positive effect on capital structure.

A high level of liquidity has a tendency to decrease the capital structure, but other results state that high levels of liquidity result in an increase in the level of capital structure and this is contrary to what is stated in existing theory.

H2: Liquidity Influences Capital Structure.

In Lins (2002), Vafeas (1999), Weisbach (1988), Yermarck (1996), Morck, et al. (1988), McConnell & Servaes (1990), Fruest & Kang (2000), Slovin & Sushka, (1993), Holderness & Sheeman (1985), Barclay & Holderness (1991), Shome & Singh (1995), Allen & Phillips (2000). A high ownership structure between Institutional Ownership and Managerial Ownership will increase company value through share prices. The same thing was also done by Jensen and Meckling (1976), Lemons & Lins (2001), Lins (2002), Cai, et al. (2001), Kholis et al., (2018), Lin and Fu (2017), Pedersen (2000), Hamdani & Yafeh (2010), Manzanegue et al. (2016),

However, the results are different from research results in Imam and Malik (2007), research results in Bangladesh, Zeitun and Tian (2007), research results in Jordan, that the research results do not have a significant influence from institutional ownership on company performance. Another different result occurred in the research results in Zeitun and Tian (2007), Imam and Malik (2007).

H3: Ownership Structure Influences Firm Value.

The results of research in Michalski (2010) show that liquidity contributes to company value, therefore the level of liquidity is one of the factors that influences firm value. Liquidity is a measuring tool for whether a company can pay off its maturing debt (Kasmir, 2013). In general, liquidity is the company's ability to fulfill short-term obligations (Titman et al., 2014) in (Lubis et al., 2017).

The results of research conducted by Astuti and Yadnya (2019) show that liquidity significantly influences firm value. Lubis et al (2017) also had the same results. The results above can be interpreted as meaning that a high level of liquidity will have an impact on high firm value and vice versa (Lubis et al., 2017). However, different results were obtained by Awulle et al., (2018) that liquidity cannot explain its effect on firm value.

H4: Liquidity Influences Firm Value.

In the research results of Haryono, S. A., et.al. (2017), Attig, et al. (2009), Zwiebel (1995), Holt-Jensen (2022) produce a significant influence of capital structure on firm value Tobin's q. The different results in research by Margaritis, Psillaki (2010) and Fosu (2013) do not produce a linear influence between capital structure and firm value. Chen (2002), Brigham and Houston (2009) there are several factors that are taken into consideration in increasing company value, one of which is leverage. Other research results that support the researchers above are Modigliani and Miller (1963) that by including company income tax, the use of debt in the capital structure will increase company value. Results that are inconsistent or different from other results are in the research of Soliha and Taswan (2002), that debt policy has no significant effect on company value.

H5: Capital Structure Influences Firm Value

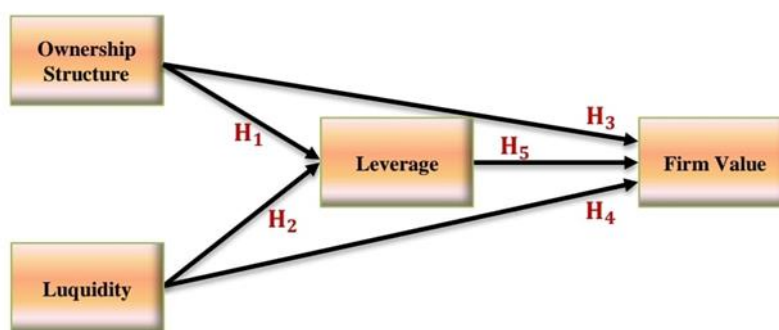


Figure 1
Research Framework Model

2. RESEARCH METHODS

The approach taken in this research is to use descriptive qualitative and quantitative, while the analytical method used is multiple panel data regression using a combination of six year time series data or the period 2009 – 2018 or 10 years and cross section. This research uses as objects companies listed on the Indonesia Stock Exchange and uses a population of all companies listed in the food and beverage sector.

From the population above, the researcher used purposive sampling as a technique to determine the selected sample with the following criteria:

1. Food and Beverages sector companies listed on IDX during the 2009-2018 research period.
2. Companies that consistently report their financial reports during the 2009-2018 research period
3. Companies that did not experience losses during the 2009-2018 research period

By using the criteria above, a total research sample of 9 companies has been obtained.

Operational Variables:

Table 1
Operational Variables

No	Variables	Notation	Formula
1	Ownership Structure	OWS_{it}	$\frac{\text{Institutional Ownership}}{\text{Outstanding shares}}$
2	Liquidity	LIQ_{it}	$\frac{\text{Current Assets}}{\text{Current Liability}}$
3	Leverage	LEV_{it}	$\frac{\text{Debt}}{\text{Equity}}$
4	Firm Value	Tobins' Q_{it}	$\frac{ME_{it} + Debt_{it}}{TA_{it}}$

ME = Outstanding Shares x Market Price
Debt = Total Amount of debt
TA = Total Assets

Panel Data Multiple Regression Estimation

When estimating multiple regression on panel data, it is first ensured that there is a combination of time series data and cross section data. The approach that can be taken in carrying out the analysis between time series data and cross section data can be using analysis:

1. Common Effect Model (CEM)
2. Fixed Effect Model (FEM)
3. Random Effect Model (REM)

Model Selection Test

After the three basic analyzes mentioned above are used, you can further carry out three model suitability testing procedures to select the best panel data multiple regression model as follows:

Chow Test

F-statistic is the standard used to determine the choice between the Common Effect model or the Fixed Effect model. Acceptance or rejection of the hypothesis is based on the level $\alpha = 5\%$ in the null hypothesis (H_0) and alternative hypothesis (H_a). Each of the two models above will technically compare the F-statistics calculation with the F-table. The result of $F_{count} < F_{table}$ will reject the null hypothesis (H_0) and instead will accept the alternative hypothesis (H_a). Thus, the appropriate model to use is the Fixed Effect Model, the decision will be taken otherwise if the results are different.

Test Criteria:

$F_{count} < F_{table}$ (H_0) is rejected

$F_{count} > F_{table}$ (H_0) is accepted

Hausman Test

Hausman testing will determine the choice of Fixed Effect Model or Random Effect Model. The use of the Chi-Square statistical distribution with k degrees of freedom as the number of exogenous variables as the basis for the test.

The results will accept the null hypothesis (H_0) and reject the alternative hypothesis (H_a) then the model will be said to be fit and use the Random Effect Model, but on the contrary it will use the Fixed Effect Model if the statistical hypothesis rejects the null hypothesis (H_0) and accepts the alternative hypothesis (H_a).

Lagrange Multiplier (LM) Test

Determining the fit model in the Lagrange Multiplier (LM) through a selection process between the Common Effect Model or Random Effect Model. The basis for the test uses the Chi-Squares distribution with a degree of freedom equal to the number of exogenous variables.

If the result is that the LM statistical value is greater than the critical value of the Chi-Squares statistic, it will reject the null hypothesis (H_0) and accept the alternative hypothesis (H_a), so that it means that the estimate that is suitable for use is the Random Effect Model. On the other hand, if the LM statistic value is smaller than the critical value of the Chi-Squares statistic, it will accept the null hypothesis (H_0) and reject the alternative hypothesis (H_a), this means that the use of the Common Effect Model is more appropriate.

Carrying out the conformity test as explained above can be simplified by looking at Figure-2 below.

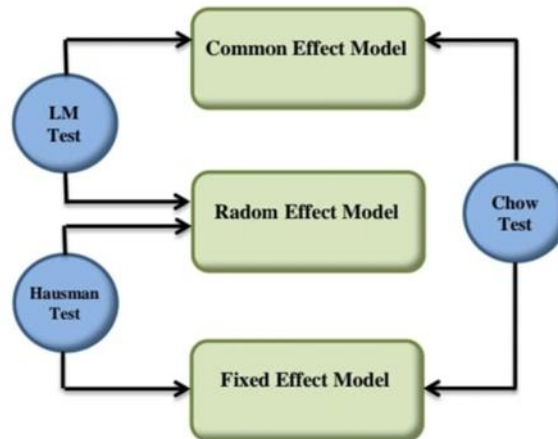


Figure 2
Model Fit Test

Panel Data Regression Model

Structural Equation Research Model I,

$$LEV_{it} = \alpha + \beta_1 OWS_{it} + \beta_2 LIQ_{it} + \epsilon_{it}; \dots \dots \dots (1)$$

$i = 1, 2, \dots, N$; $t = 1, 2, \dots, T$

Structural Equation Research Model II,

$$Tobins'Q_{it} = \alpha + \beta_1 OWS_{it} + \beta_2 LIQ_{it} + \beta_3 LEV_{it} + \epsilon_{it}; \dots \dots \dots (2)$$

$i = 1, 2, \dots, N$; $t = 1, 2, \dots, T$

Where:

LEV	=	Leverage	β	=	Slope
OWS	=	Ownership Structure	α	=	Intercept
LIQ	=	Liquidity	N	=	Number of Observations
Tobins'Q	=	Firm Value	T	=	Lots of time
ϵ	=	Error component	NxT	=	Number of Panel Data

3. RESULTS AND DISCUSSION

A. Descriptive Statistics

Table 2
Descriptive Statistics

	OWS	LIQ	LEV	Tobins'Q
Mean	0.416000	2.526889	3.318111	176.3230
Median	0.370000	2.140000	2.675000	152.0700
Maximum	5.270000	8.640000	9.220000	523.7500
Minimum	0.020000	0.030000	0.870000	16.64000
Std. Dev.	0.572247	1.871061	1.731895	105.8022
Observations	90	90	90	90

Sumber : Data diolah

Research Results Model 1 and 2

B. Leverage and Firm Value as Endogenous Variables in Testing the Suitability of Research Models

Structural Equation 1 and 2 Research Model

Table 3
Chow Test

Research Model 1 Chow Test: Common Effect Vs Fixed Effect Endogenous Variable: Leverage				Research Model 2 Chow Test: Common Effect Vs Fixed Effect Endogenous Variable: Integrity of Financial Reports			
Effects Test	Statistic	d.f.	Prob.	Effects Test	Statistic	d.f.	Prob.
Cross-section F	36.567778	(8,79)	0.0000	Cross-section F	16.662424	(8,78)	0.0000
Cross-section Chi-square	139.339319	8	0.0000	Cross-section Chi-square	89.691050	8	0.0000

Source: Data processed

The results of testing the Chow-test in Research Model I and Research Model 2 show that the F test statistics with the chi-square test produce statistical hypotheses: rejecting the null hypothesis (H_0) and accepting the alternative hypothesis (H_a) at the level of $\alpha = 5\%$. This can be interpreted as saying that the Fixed Effect Model will be better used than the Common Effect Model. (Table-3)

Table 4
Hausman Test

Research Model 1 Hausman Test: Fixed Effect Vs Random Effect Endogenous Variable: Firm Value				Research Model 2 Hausman Test: Fixed Effect Vs Random Effect Endogenous Variable: Integrity of Financial Reports			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	25.058764	2	0.0000	Cross-section random	26.721455	3	0.0000

Source: Data processed

The same results in testing the Hausman-test in Research Model I and Research Model 2 are the F test statistics with chi-square test with statistical hypothesis results: rejecting the null hypothesis (H_0) and accepting the alternative hypothesis (H_a) at the level of $\alpha = 5\%$. This means that the same test results can also be said that the use of the Fixed Effect Model in the results of this test is better than the Random Effect Model. (Table-4).

Table 5
Endogenous Variable: Leverage
Total pool (balanced) observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.576694	0.012222	6.778287	0.0000
OVS	-0.328091	0.097933	-4.083577	0.0001
LIQ	0.012258	0.018933	1.509631	0.1744
Adjusted R-squared	0.321089			

Source: Data processed

Table 6
Endogenous Variable: Firm Value
Total pool (balanced) observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.474980	0.085364	28.99311	0.0000
OWS	2.243238	0.862210	2.631461	0.0105
LIQ	0.015449	0.006778	2.268323	0.0267
LEV	-0.409093	0.099935	-4.094576	0.0001
Adjusted R-squared	0.59441			

Source: Data processed

1. Ownership Structure has a significant effect on Leverage with a negative correlation as in table 5
2. The liquidity variable has an insignificant effect on Leverage as shown in the results in table 5
3. Ownership Structure has a significant effect on Firm Value with a positive correlation as in table 6.
4. The liquidity variable has a significant effect on Firm Value as shown in table 6
5. Leverage as an intervening variable has a significant effect on Firm Value with a positive correlation as in table 6.
6. The two exogenous variables in research model 1 with the endogenous variable Leverage can contribute to explaining 32.1% (table 5).
7. The three exogenous variables in research model 2 with the endogenous variable Firm Size can contribute to explaining 59.4% (table 6).

DISCUSSION

The results of research using the exogenous variable Ownership Structure which has a significant effect on Leverage with a negative correlation can be explained, that an increase in institutional ownership in the ownership structure will have an impact on reducing the debt ratio. An increase in the debt ratio level will expose the company to an increased level of risk.

The Ownership Structure variable in research on Firm Value can be explained directly or indirectly through Leverage as an intervening variable. The increase that occurred in institutional ownership in the ownership structure was responded to both by investors in the capital market, either through the capital structure or directly. These results support the results in Thomas et al. (2014), Hossain and Ayub (2012), Wahab and Nur (2014), Watung et al. (2016), Andasari et al. (2016). Different results in Imam and Malik (2007), Zeitun and Tian (2007), Zeitun and Tian (2007), Imam and Malik (2007).

The Liquidity variable in this research cannot explain its effect on Leverage, but it can explain its effect on Firm Value. This can be explained in relation to the ownership structure where the main focus is more on risk management. The market response in the Firm Value variable is the appreciation of investors in the capital market in looking at liquidity risk, whereas for Leverage this is not the case because it has been explained by the Ownership Structure which has a negative correlation in the sense of a focus on risk management. These results support the research results of Bhatia and Manish (2016), but differ in Thomas et al. (2014), Hossain and Ayub (2012), Wahab and Nur (2014), Watung et al. (2016), Andasari et al. (2016), and Widayant et al. (2016).

4. CONCLUSION

Findings: The results of this research conclude that Ownership Structure has a significant effect on Leverage with a negative correlation. The same results also show that Ownership Structure has a significant effect on Firm Value but the correlation is otherwise positive. The liquidity variable has an insignificant effect on Leverage but has a significant effect on Firm Value with a positive correlation. Leverage as an intervening variable functions to mediate Firm Value with the dominant variable in Ownership Structure which has the highest level of sensitivity. This is also a suggestion for future researchers and especially for company management authorities regarding the importance of Leverage as a key variable.

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