



**SHINAWATRA
UNIVERSITY**

**Proceedings of
9th International Conference
on Management,
Finance and Entrepreneurship
ICMFE-2016**

**Shinawatra University, Bangkok, Thailand
July 23-24, 2016**



Ankara, Turkey



"PETRE ANDREI" of IASI, Romania



Durban, South Africa



NAM, Ukraine

Proceedings

9th International Conference on Management, Finance & Entrepreneurship

Bangkok, Thailand

23 -24, January 2016

ISSN 2311-6269

Organized by

**International Foundation for Research and Development
(IFRD)**

Preface

Dear Distinguished Delegates and Guests,

The Conference Committee warmly welcomes our distinguished delegates and guests to the 2016 International Conference on Management, Finance and Entrepreneurship (ICMFE-2016) held on July 23-24 in Bangkok, Thailand.

ICMFE-2016 is organized by International Foundation for Research and Development (IFRD). The conference is aimed at discussing with all of you the wide range of problems encountered in present and future issues in economies and Societies. ICMFE-2016 is organized in collaboration with Shinawatra International University, Thailand, Yildirim Beyazit University, Turkey, PERTRE ANDERI of IASI, Romania and National Academy of Management, Ukraine where researchers from around the world presented their work. The conference committee is itself quite diverse and truly international, with membership around the world.

Proceeding records the fully refereed papers presented at the conference. Main conference themes and tracks are Management, Finance and Entrepreneurship. Conference aims to bring together researchers, scientists, engineers and practitioners to exchange and share their experiences, new ideas and research results about all aspects of the main conference themes and tracks and discuss the practical challenges encountered and the solutions adopted. The main goal of the event is to provide a scientific forum for exchange of new ideas in a number of fields that interact in depth through discussions with their peers from around the world.

Conference has solicited and gathered technical research submission related to all aspects of major conference themes and tracks. All the submitted papers have been peer reviewed by the reviewers drawn from the scientific committee, external reviewers and editorial board depending on the subject matter of the paper. Reviewing and initial selection were undertaken electronically. After the rigorous peer-review process, the submitted papers were selected based on originality, significance, and clarity for the purpose of the conference. Conference program is extremely rich, featuring high-impact presentations. The high quality of the program guaranteed by the presence of an unparalleled number of internationally recognized top experts. Conference will therefore be a unique event, where attendees will be able to appreciate the latest results in their field of expertise, and to acquire additional knowledge in other fields. The program has been struttred to favor interactions among attendees coming from many diverse horizons, scientifically, geographically, from academia and from industry.

We would like to thank the program chairs, organization staff, and members of the program committee for their work. We are grateful to all those who have contributed to the success of ICMFE-2016 especially our partners. We hope that all participants and other interested readers benefit scientifically from the proceedings and find it stimulating in the process. Finally, we would like to wish you success in your technical presentations and social networking.

We hope you have a unique, rewarding and enjoyable time at ICMFE-2016 in Bangkok.

With our warmest regards,

Conference Committee
July 23-24, 2016
Bangkok, Thailand.

ICMFE-2016

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International Conference on Management, Finance & Entrepreneurship (ICMFE-2016)

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PAPERS

The Influence of Debt Policy, Company Size and Agency Cost on Performance of Listed Manufacturing Company in Indonesian Stock Exchange (IDX)

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Abstract: This study examines the influence of debt policy, company size and agency cost on listed manufacturing companies in Indonesian Stock Exchange (IDX). Population of this study is all manufacturing companies that listed in IDX in the period of 2009-2014. Purposive sampling was employed to determine the number of sample. Therefore, 241 companies-years were selected with the final sample is 223 companies-years after outlier and normality tests was executed. Structural equation modeling (SEM) was used to answer the research question. The study showed that the hypothesized measurement model fits the data as indicated by the goodness of fit indices and the significant factor loadings. The structural model found that the only company size had a significant effect on company performance while others variables did not significantly affect company performance.

Keywords: *debt policy, company size, agency cost, company performance*

1. Introduction

Theoretically speaking that corporate insiders (officers and directors) generally are much better informed about the current workings and future prospects of a company than are outside investors. In the presence of asymmetric information, it is very difficult for investors to objectively discriminate between high-quality and low-quality companies (Megginson, 1995). Asymmetric information could create agency conflict between manager and shareholders. This conflict could be reduced through the monitoring mechanism that can realign a manager's interest with that of shareholders. Nevertheless, such agency problems generally lead to increased agency costs (Jensen and Meckling, 1976). The main purpose of company is to maximize the shareholders' wealth. Therefore the company should have high performance. There are some variables that influence company performance such as debt policy, company size and agency cost. Debt policy is related with the using of debt in the company. Debt could increase company performance since company could bear benefit from tax deductible. In addition, the using of debt could also make the company bears less cost as compare to using of equity. Larger company size can also affect company performance as shareholders face some difficulties in monitoring managers and knowing whether or not the managers are pursuing shareholders' wealth maximisation. A larger company is usually supported by skilled employees but it can be related to high agency costs. It is believed that without effective monitoring, benefits of economies of scales cannot be achieved. Driffield, Mahambare and Pal (2007), Gupta (1969), and Lang and Stulz (1994) indicated that a larger company generally outperforms a small company because the former provides benefits of economies of scale, easy access to funds and human capital investment.

Murphy (1985) argued that managers have incentives to cause their company to grow beyond the optimal size. Growth increases the managers' power by increasing the resources under their control. Growth is also associated with an increase in managers' compensation. The managers tend to use excessive debt, hence there is free cash flow in the company. This condition sometimes motivates managers to choose the projects even have negative net present values. In other words, the use of debt will affect behavior of manager. In addition, if shareholders disagree with the decision of the manager, they can use their right to discipline the manager in order to pursue the shareholders' welfare. In other words, if shareholders are not satisfied with the manager's performance, they can sell their share to other investors. Thus addressing the conflict of interest between the manager and the owners creates agency cost. In summary, the use of debt and company size will directly affect company performance. Both of variables could also influence company performance through agency cost. Therefore, there is a need for a study to investigate the impact of debt policy, company size and agency cost on company performance in mitigating agency conflict. Though there have been many studies in Indonesia on the application of agency theory, very limited information is known about the impact of debt policy, company size and agency cost on company performance. Some studies found capital structure has a significant effect on company performance (Esa, 2012); company size significantly influences company performance (Derry, 2014); agency cost has an effect on company performance; capital structure and company size have

insignificant effect on company performance through agency cost (Lin, 2006 as cited by Khaira, 2011).

Agency Theory: Agency relationship is a common phenomenon in a large company. When the owner or principal owns 100 percent of the stock of a company, there is no agency relationship and no separation between corporate ownership and control. The principal is the manager and the owner at the same time. This means that the entrepreneur bears all the costs and reaps all the benefits because of his or her action. Once a fraction ' α ' of the company's stock is sold to an outside investor, the entrepreneur bears only ' $1 - \alpha$ ' of the consequences of his or her action (Jensen, 1986; Jensen & Meckling, 1976). Therefore, the separation between ownership and control of the company (Berle & Means, 1932) creates agency conflict between owners and agents (Jensen & Meckling, 1976). In other words, there is a conflict of interests between outside shareholders and the managers of a company. This leads to the possibility that managers may make decisions based on their interests at the expense of the shareholders. As a result, such conflict of interests causes a market reaction, which reduces company value. This loss of company value is known as agency cost of equity. Therefore, agency theory exists to explain about the relationship between principal (owners) and agent (managers).

Asymmetric Information Theory: Asymmetric information exists between a manager and owners since the former has more information about the company than the shareholders. It is difficult for shareholders therefore to predict the performance and behaviour of a manager. Problems also appear when owners, who hire a manager as an employee with a managerial responsibility and decision making, do not know the ability and behaviour of the manager (Jensen and Meckling, 1976). This situation may cause the existence of moral hazard because manager tends to minimize his or her effort as compared to expectation of shareholders. Manager has not entered into the contract in good faith, has provided misleading information about company's assets, liabilities or credit capacity, or has an incentive to take unusual risks in a desperate attempt to earn a profit before the contract settles. Signaling theory was developed in finance literature to explicitly account for the fact that corporate insiders generally have more information about the current workings and future prospects of a company than outside investors.

Company Performance: Company performance generally is measured by net income (profit) or as a basic other size such rewards investments income per share (Harmono, 2011). Company performance is the ability of company to generate profit by exploiting assets, debt and equity. Company performance describes the financial condition. Higher profit generated will improve company performance. Company performance could be look at the financial ratios such as return on equity (ROE), net profit margin (NPM) and price earning ratio(PER).

Agency Cost: Jensen and Meckling (1976) explain that agency cost is a cost caused by differences interest between managers and shareholders. Conflict of interest can be minimized with the monitoring mechanism, but the monitoring mechanism could create agency cost. Agency cost may be provision of incentives for managers as well as cost of supervision to prevent any hazard. Agency cost can also mean the use of cash flows for bonus or spending that only to pursue manager's interest, not interest of all shareholders. Brigham, Gapensky, and Daves (1999) approach agency cost by looking at the use of debt in a company where it involves the relationship between shareholders and debt holders. This cost is known as agency cost of debt. As mentioned earlier, Jensen and Meckling (1976) define agency costs as a sum of (1) monitoring expenditures by the principal, (2) bonding expenditures by agent, and (3) residual loss. Therefore, insiders as decision makers in a company need to consider the impact of their decision especially in an effort to mitigate agency problems. According to Jensen and Meckling (1976), manager's capital structure decision refers to a balance of agency cost of equity – it is resulted from the relationship between shareholders and manager, and agency cost of debt which resulted from relationship between manager-owner and debtholder.

Asymmetric information will lead to agency conflict, information which is owned by manager can make managers decided to make investment less favorable for the company. Although purpose of managers in managing the company is to promote and make a profit for the company, but managers also has its own interest that can be realized through the investment decisions. Agency cost could be measured by SGA expense which compares burden of operations with sales (Singh & Davidson, 2003). SGA expense measures company expenditure for fulfilling the interests of management. These are the general, government and administrative expense that could reflect the burden of discretionary managerial. It is probable used by manager solely for his/her gain, not for increasing company performance. In brief,

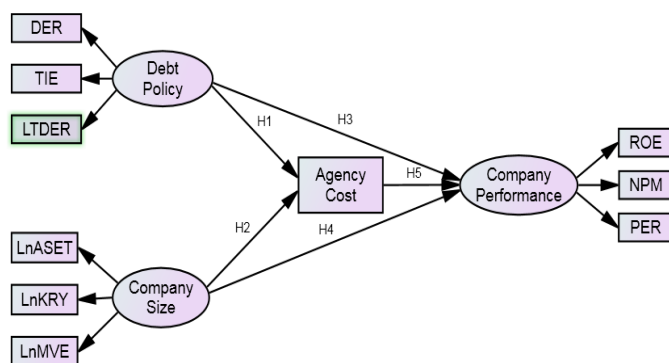
manager decision related to SGA expense tends to benefit her/him as compare to all shareholders's interest.

Debt Policy: Debt policy could be seen from the number of debt is employed in company. It could be measured by such as debt to equity ratio (DER), debt to assets ratio (DAR), times interest earned ratio (TIE) and long term debt to equity ratio (LTDER) (Subramanyam, 2010; and Keown, 2008). The using of debt could increase company performance since cost of debt is less than cost of equity. Company also could reap benefit of tax deductible.

Company Size: Company size had an effect on company performance (Kumar, 2005). Large companies might turn out to be more efficient as they are likely to exploit economies of scale, employ more skilled managers, and have greater specialization and formalization of procedures, all of which might lead to better performance (Driffield et al., 2007; Gupta, 1969; Lang & Stultz, 1994). It also measures a company's market power or the level of concentration in the industries. Transaction costs involved in the issuance of securities are also related to company size (Gupta, 1969; Smith & Watts, 1992). In particular, small companies face some difficulties and pay much more than large companies when issuing new equity and long-term debt. On the other hand, larger companies have easier access to the capital market since they have a large assets base as a guarantee.

Theoretical Framework: Based on the theories and previous studies, structural equation modeling of company performance is developed as described in Figure 1.

Figure 1: Conceptual Framework



The model shows that debt policy negatively influences agency cost (H1); company size is predicted as having a positive relationship to agency cost (H2); debt policy has effect on company performance (H3); company size is postulated as having a positive effect on performance; and agency cost negatively affect company performance (H5). Furthermore, Table 1 explains all of the variables in this study.

Table 1: Variables in this Study

Construct Latent	Description	Dimension of Construct
Company Performance	Endogenous latent Variable	ROE (return on equity) NPM (net profit margin) PER (price earning ratio)
Debt Policy	Exogenous latent Variable	DER (debt to equity ratio) TIE (times interest earning ratio) LTDER (long term debt to equity ratio)
Company Size	Exogenous latent Variable	LnASET (total assets) LnKRY (the number of employee) LnMVE (market value equity)
Observed Variable		
Agency Cost	Endogenous Variable	Observed SGA Expense

2. Methodology

Sample and Data Collection Method: Population of this study is all listed manufacturing companies listed in IDX in the period of 2009-2014. Sample was selected based on purposive sampling method with certain criterias. There are 241 company-year observations selected as a sample. Final data is 223 company-year observations since there are 18 outliers. Data used is collected from the www.idx.co.id.

Measurement of Variable: This study employed three latent constructs and one observable variable. Each latent construct has three indicators. Company performance is proxied by three indicators as presented in Table 2.

Table 2: Measures of Company Performance

Company Performance	Description
ROE = $\frac{\text{net income}}{\text{equity}}$	ROE is ratio between net profit and equity shareholders (Subramanyam, 2010)
NPM = $\frac{\text{net income}}{\text{sales}}$	NPM is measured as ratio net profit and sales (Subramanyam, 2010)
PER = $\frac{\text{price per share}}{\text{net income per share}}$	PER is the price per share divided by net profit per share (Subramanyam, 2010)

Agency cost represented is observable variable that can be directly measured by Selling, general and administrative (SGA) such as in Table 3.

Table 3: Measure of the Agency Cost

Agency Cost	Description
SGA expense = $\frac{\text{selling, general and administrative expense}}{\text{sales}}$	SGA expense is divided by burden of operations with sales (Singh & Davidson, 2003).

Debt policy is proxied by three manifests which consist of debt to equity ratio (DER), times interest earning (TIE) and long term debt to equity ratio (LTDER) as described in Table 4.

Table 4: Measures of Debt Policy

Debt Policy	Description
DER = $\frac{\text{total debt}}{\text{total equity}}$	DER is ratio ratio between total debt and total equity (Subramanyam, 2010)
TIE = $\frac{\text{EBIT}}{\text{interest}}$	TIE is ratio between EBIT and interest (Keown, 2008)
LTDER = $\frac{\text{total long term debt}}{\text{Total equity}}$	LTDER is measured by total long term divided by total equity (Subramanyam, 2010)

Finally, Table 5 explains the indicators for company size, which consist of the number of asset (LnASET), the number of employee (LnKRY) and market value to equity (LnMVE).

Table 5: Measures of Company size

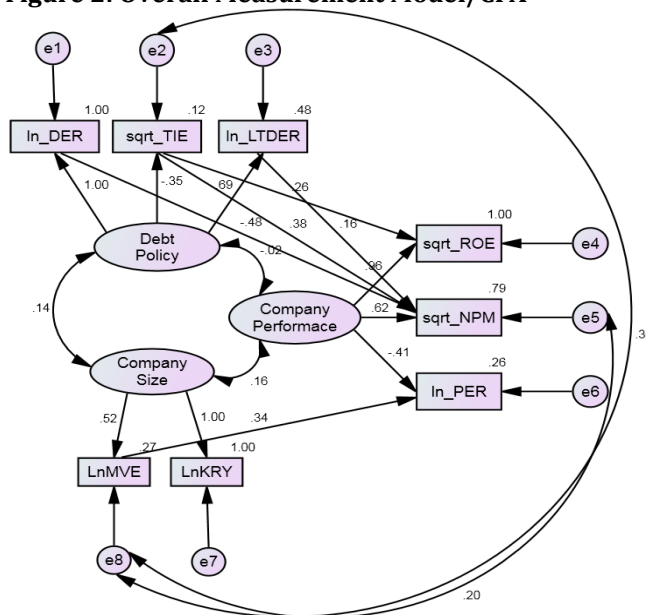
Company Size	Description
LnASET = natural log of total assets	LnAssets is the natural log of total assets (Vic et. al, 2008)
= natural log of total employee	LnKARYAWAN is the natural log of the number of employees (Hadri, 2005)
LnMVE = natural log of MVE	LnMVE is the natural log of MVE. Market value of equity is measured as common stock outstanding multiply by closing price at the fiscal year end (Hull, 1998).

Technique of Analysis: Structural Equation Modeling (SEM) by using software AMOS 20 is employed in this study. The purpose of this study is to look into the influence of exogenous variables (debt policy and company size on agency cost) towards endogenous variable (company performance). In this study agency cost is an intervening variable, which intermediary the indirect effect of debt policy and company size on company performance. SEM is composed of measurement model and structural model. Measurement model explains how much an indicator could manifest its latent variable. Structural model describes the relationship between exogenous variables and endogenous variable, which aims to address the hypothesis.

3. Finding and Discussion

SEM is a two step approach which includes the measurement model through confirmatory factor analysis (CFA) and structural model. CFA was executed before the structural model. This study conducted overall measurement model for three latent variables, as exhibited in Figure 2. The results showed that the model could fulfill convergent validity, indicators could explain each latent variable. According to Anderson (1998) as cited by Ferdinand (2006), Hair et al. (2006) and Tabachnick and Fidell (2007), there are several ways to assess convergent validity such as standardized factor loading, variance extracted, construct reliability and critical ratio. All the factor loadings are significant at 0.001 level, with loading values ranging from -0.35 to 1 as described in Table 6. According to Tabachnick and Fidell (2007), the factor loadings with a value more than 0.3 showed a convergent validity, since one of indicators of company size is less than 0.3 (asset) so it was deleted from the overall CFA.

Figure 2: Overall Measurement Model/CFA



Indicators of company performance had factor loadings as follows return on equity (0.96), net profit margin (0.62) and price earning ratio (-0.41). This shows that all indicators could manifest company performance. Although all are significant but return on equity (0.96) represents company performance latent better than other indicators. Moreover, debt policy could be explained by its measures since debt to equity ratio, long term debt to equity ratio and times interest earning ratio had factor loadings of 1, -0.35, and 0.69 respectively. All factor loadings are significant and are more than 0.3, which explains that convergent validity was fulfilled. Nevertheless, among the three indicators representing debt policy, debt to equity ratio is the most important because it has a higher factor loading (1). Finally, company size had factor loadings as follows 1 (KRY), and 0.52 (MVE). This indicates that only two measures could manifest company size. Nevertheless, employee (KRY) is closely linked to company size because it has a higher factor loading (1). This is a contribution of SEM.

Additionally, the standardized loadings (SL) and critical ratios (C.R were double the standard error) indicated the convergent validity was fulfilled (Anderson & Gerbing, 1988) as cited in Ferdinand (2006)); specifically their values were sqrt_NPM (SL = 0.62, C.R = 20.375, 2SE = 0.052), ln_PER (SL = - 0.41, C.R = -

7.037, 2SE = 0.704), sqrt_TIE (SL = - 0.35, C.R = -5.833, 2SE = 0.442), ln_LTDER (SL = 0.69, C.R = 14.198, 2SE = 0.138), LnMVE (SL = 0.52, C.R = 9.746, 2SE = 0.238). All latent variables (debt policy, company size and company performance) could be manifested by their own indicators; hence convergent validity could be achieved. Similarly, the variance extracted and construct reliability of debt policy, company size and company performance could achieve the convergent validity because their values were more than 0.5 for variance extracted and 0.7 for construct reliability (Hair et al., 2006). Specifically, debt policy had variance extracted of 0.53 and construct reliability of 0.75 while company size had variance extracted of 0.64 and construct reliability of 0.76. Company performance had variance extracted of 0.50 and construct reliability of 0.72. This indicated that debt policy, company size and company performance were reflected well by its own indicators as suggested by the related theory.

Table 6: Output of Overall CFA

Latent	Dimensions	Stand. Loading (SL)	SMC (SL ²)	Error Variance (1-SMC)	Stand. Error	C.R	P
Company Performance	Sqrt_ROE	0.96	0.92	0.08			
	Sqrt_NPM	0.62	0.38	0.62	0.026	20.375	0.00
	Ln_PER	-0.41	0.17	0.83	0.352	-7.037	0.00
	Σ	1.99	1.47				
	construct reliability	0.72					
	variance extracted		0.5				
Debt Policy	Ln_DER	1	1	0			
	Sqrt_TIE	-0.35	0.12	0.88	0.221	-5.833	0.00
	Ln_LTDER	0.69	0.48	0.52	0.069	14.198	0.00
	Σ	2.04	1.6				
	construct reliability	0.75					
	variance extracted		0.53				
Company Size	LnKRY	1	1	0			
	LnMVE	0.52	0.27	0.73	0.119	9.746	0.00
	Σ	1.52	1.27				
	Construct reliability	0.76					
	Variance extracted		0.64				

Source: output of AMOS

The results also show that discriminant validity was established when none of the correlations among the constructs were more than 0.9 (Hair et al., 2006). The lowest and highest correlations were -0.02 (debt policy and company performance) and 0.16 (company size and company performance), whereas the correlation between debt policy and company size was 0.14. Further, the square of correlations among the constructs (0.0196 for debt policy and company size; 0.0256 for company size and company performance; and 0.0004 for debt policy and company performance) were less than variance extracted for each construct (VE of company performance = 0.5, VE of debt policy = 0.53, VE of company size = 0.64). It shows that each of the latent construct explains its indicators better than it explains other constructs. Therefore, this study could fulfill discriminant validity. In brief, when the measurement model could fulfill convergent and discriminant validity, the CFA would have better fit. This means the measurement models fit the data manufacturing companies in IDX. Table 6 exhibits the output of overall CFA which included standardized

factor loadings, construct reliability, variance extracted, SMC, critical ratio, standard error and p-value. Table 7 presents that the overall measurement model was a good fit since its GOF could achieve the cut off values (χ^2/df ratio = 1.69, GFI = 0.98, AGFI = 0.93, CFI = 0.99, TLI = 0.97 and RMSEA = 0.06). In addition, chi-square statistics was insignificant ($\chi^2 = 21.94$, $df = 13$ and $p = 0.06$) (Bagozzi & Yi, 1988). In brief, measurement models in this study were valid and fit.

Table 7: Goodness of Fit Indices of Overall CFA

Goodness of Fit Indices	Statistik	Cut off Value	Decision
Chi-square (χ^2)	21.94	Lowest	
Df	13		
Probability (p-Value)	0.06	≥ 0.05	Better fit
Ratio	1.69	≤ 3.00	Better fit
GFI	0.98	≥ 0.90	Better fit
AGFI	0.93	≥ 0.90	Better fit
CFI	0.99	≥ 0.94	Better fit
TLI	0.97	≥ 0.95	Better fit
RMSEA	0.06	≤ 0.08	Better fit

Source: output of AMOS

Once the measurement model (CFA) have satisfied all the requirements, the second step (structural model) could be done. The structural model describes relationship between exogenous variables which includes debt policy, company size and agency cost, and endogenous variables (company performance). Its aim is to assess the model data fit and relationship among the variables that have been hypothesized. Based on the results in Table 8 the structural model could achieve model fit as explained by its goodness of fit indices. Chi-square is solely criteria to determine model fit because chi-square is very sensitive to the sample size. Sample size can cause chi-square significant, hence hypothesis null that model fit with the data is rejected. The purpose of SEM is to accept the hypothesis null that the model fit with data. This study using χ^2/df ratio, the CFI, GFI, TLI and RMSEA.

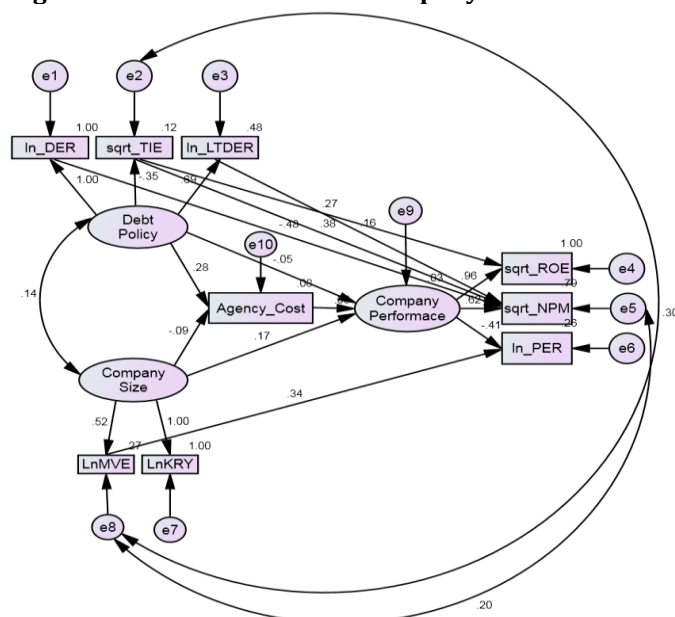
Table 8: Goodness of Fit Indices of Structural Model

Goodness of Fit Indices	Statistik	Cut off Value	Decision
Chi-square (χ^2)	34.72	Lowest	
Df	18		
Probability (p-Value)	0.01	≥ 0.05	-
Ratio	1.93	≤ 3.00	Better fit
GFI	0.97	≥ 0.90	Better fit
AGFI	0.92	≥ 0.90	Better fit
CFI	0.98	≥ 0.94	Better fit
TLI	0.96	≥ 0.95	Better fit
RMSEA	0.07	≤ 0.08	Better fit

Source: output of AMOS

The structural model in Figure 3 explains the influence of debt policy and company size on agency cost, as well as the effect of debt policy, company size and agency costs on company performance. Its objective is to answer the five hypotheses in this study.

Figure 3: Structural Model of Company Performance



H1: Debt Policy has a Negative and Significant Effect on Agency Cost

This study reveals that debt policy has a positive and significant effect on agency cost of manufacturing companies that listed in IDX with p-value of 0.00, which was less than 0.05. Its coefficient is 0.114 with critical ratio as much of 4.304. Nevertheless, this study could not support the first hypothesis because its effect is positive. The positive influence of debt on agency cost means the increasing of the number of debt would increase agency cost. According to Jensen and Meckling (1976) if the number of debt increases, so manager would become more careful in making decision related with debt. He or she tends to use free cash flows for debt payment, hence, it could reduce the agency cost. Nevertheless, this study could not support the agency theory as said by Jensen and Meckling (1976). The finding indicates that manager's of listed manufacturing companies in IDX did not employ debt to maximum of the shareholder's wealth but only to pursue their interests. This study are consistent with research Khaira (2011) that found capital structure have a significant and positive influence on agency cost of basic industrial and chemical that listed in IDX. Moreover, this study could not support previous studies that stated the capital structure did not affect agency cost (Awwalia, 2014; and Intan, 2014).

H2: Company Size has a Positive and Significant effect on Agency Cost

The results show that company size have insignificant effect on agency cost of manufacturing company that listed in IDX, where its p-value was 0.146, which was more than 0.05. Hence, the second hypothesis, company size had a positive and significant effect on agency cost, was not accepted. Company size as one of determinat the agency cost could not be aplicable in IDX. The insignificant result shows that company size could not affect agency cost in Indonesia. This study also indicates that managers of manufacturing listed companies did not enlarge company size only to fulfill their interests. This study supported the work of Intan (2014) that company size had no influence on agency cost. This study was not consistent with Khaira (2011) and Awwalia (2014) that company size had a negative and significant effect on agency cost.

H3: Debt Policy Positively and Significantly Affcet Company Performance

Based on the result of this study, debt policy also did not significantly affect company performance since its p-value of 0.47 was more than 0.05. This study did not support the Modigliani and Miller who said that the using of debt could increase company performance since there is an advantage of debt such as tax deductible (Brigham & Houston, 2011). Debt as a source of fund did not seem to be a factor to boast poeemce in IDX. It might be applicable to other developed capital markets, but it did not seem to be the case in Indonesia. In brief, Hypothesis 3 was rejected. This finding contradicted with the work of Awwalia (2014), Esa (2012) and Intan (2014) that capital structure had a positive and significant effect on company performance. This result supported the study of Khaira (2011) that capital structure did not influence company performance.

H4: Company Size Has a Positive and Significant Effect on Company Performance

The only variable that was found to be statistically significant is company size. It could affect company performance at 0.05 level of significance. Hence, Hypothesis 4 was supported. The result indicates a positive coefficient ($\beta = 0.014$, $p = 0.011 < 0.05$, $t (C.R) = 2.529$) between company size and company performance, which reflected that larger company size would increase company performance. This finding indicates that listed companies in IDX could reap benefits of company size such as skilled managers and employee, and greater specialization, which could probably reduce transaction costs, generate return which in turn caused an increase in company performance (Driffield et al., 2007; Gupta, 1969; Lang & Stultz, 1994; Smith & Watts, 1992). A large company is associated with being more established, and having managers with a lot of experience to manage a company, and having employees with a good knowledge, skill and ability, which contribute to company performance. This result is consistent with previous evidences that company size has a positive and significant effect on company performance (Awwalia, 2014; Chakrabarti et al., 2007; Chen & Ho, 2000; Kumar, 2005; Mickelson et al., 1997; Ming & Gee, 2008; Serrano-Cinca et al., 2007; Zeitun & Tian, 2007). Based on the result, company size is a significant determinant of company performance for listed manufacturing companies on IDX. Investors associate company size with better performance. The finding is not consistent with the implication stated in the agency theory where it is rather difficult for shareholders to monitor top management of a large company.

H5: Agency Cost Has a Negative and Significant effect on Company Performance

The results shows that agency cost had insignificant and positive effect on company performance with p-value of 0.48, which more than 0.05 ($\beta = 0.019$, $p = 0.477 > 0.05$, $t (C.R) = 0.712$). It reveals that the agency cost was not a determinant of company performance in manufacturing listed companies in IDX. Hence, Hypothesis 5 was not accepted. A positive effect is not accordance with Jensen and Meckling (1976) which states that higher agency costs indicates that more complex of agency conflict in the company. Insignificant influence agency cost on company performance might be caused by on average agency costs are not too high in IDX. Agency cost is measured by selling, general, administrative expense (SGA) to sales. This means that manager uses SGA expense only to increase the number of sales, which in turn increases company performance. Manager did not employee SGA expense to fulfill his/her own interest. However, agency cost insignificantly affect company performance in IDX. This result supported the study of Khaira (2011) and Intan (2014) that found there was no influence agency cost on company performance but contradicted with the finding of Awwalia (2014).

Table 9: Summary of the Hypothesis Testing

H	Exogenous Variable	Endogenous Variable	Std. Estimasi	S.E	C.R	P	Supported
1	Debt Policy	Agency cost	0.114	0.027	4.304	0.000	No
2	Company Size	Agency cost	-0.020	0.014	-1.452	0.146	No
3	Debt Policy	Company Performance	-0.008	0.11	-0.724	0.469	No
4	Company Size	Company Performance	0.014	0.005	2.529	0.011	Yes
5	Agency cost	Company Performance	0.019	0.026	0.712	0.477	No

Squared multiple correlations (SMC) for agency cost: 0.080

Squared multiple correlations (SMC) for company performance: 0.029

Source: output of AMOS

In brief, only company size affected company performance, other hypotheses were rejected. Therefore, the agency cost was not intervening variable between debt policy and company performance as well as company size and company performance. The summary of results were presented in Table 9. The structural model also showed that R-square or SMC of agency cost (endogenous variable) is 0,08. This means 8% of variance in agency cost could be explained by debt policy and company size, and 92% of its variance could be mentioned by other variables. R-square or SMC, company performance (endogenous variable) is 0.029. This indicates that 2.9 % variance in company performance could be explained by debt

policy. There are other variables that were not accounted in this study that could explain 87% of the variation in company performance. Future research would have to take this into account.

4. Conclusion and Future Recommendation

The results showed that only company size had a significant effect on company performance. Other variables such as debt policy and agency cost could not affect company performance. Based on this finding, it could be inferred that large companies are associated with an increase in company performance. This is probably due to a larger company has generally more effective management arising from greater economies of scale, more skilled managers, greater specialization and easier access to funds. The sample used in this study is limited to manufacturing companies. Hence, further studies might be conducted to look into other sector and use other variables such as debt policy and foreign ownership. The study also indicates that the agency cost was not an intervening variable between debt policy and company performance as well as company size and company performance since there were no significant effect debt policy and company size on company performance and there was insignificant influence of the agency cost on company performance.

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