DECISION OF THE USE OF DEBT TO INCREASE PROSPERITY OF COMPANY OWNER IN FOREIGN COMPANY AND DOMESTIC COMPANY ON INDONESIAN STOCK EXCHANGE

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ABSTRACT

The capital structure is a combination of debt and equity that was used by the company. Differences in capital structure, decision-making are influenced by the type of the company, whether the company is Foreign or Domestic. The Foreign company, majority shareholders are foreigners, in addition, most management using foreign management. This is the opposite of the Domestic company, if the Domestic company, majority shareholder is a person or agency that originated from within the country and management is the management in the country. The company's debt usage decision characteristic of Foreign and Domestic companies can be seen from Debt to Equity Ratio (DER), it will have an effect on the prosperity of the company's share owners. Based on the results of the analysis, show that Debt to Equity Ratio in the Foreign and Domestic company have the same height. The average DER of Foreign company was 85,1467 percent and DER of Domestic company was 86,8667 percent. While the prosperity company owner can be seen since Return on Equity (ROE) in the Foreign company since that Domestic company. The average ROE of Foreign company was 37,75093 percent and ROE of Domestic company was 20,53147 per cent. Based on the test results shown that there is a difference in impact in the use of debt (DER) to the financial performance (ROE) between Domestic and Foreign company. The difference is seen from the two companies, the elasticity of the visible that ROE of Foreign company is more sensitive to changes cause DER than Domestic company.

Key Words: Capital Structure, Debt, Equity

I. INTRODUCTION

1.1 Background

One of the important decisions in financial management is a decision on the capital structure. This decision was related to the issue of combination between debt and private equity that was used by the company. The financial manager must be able to combine its to own capital and debt with great care so as to minimize the cost of capital as a consequence of the use of the funding source. Capital structure, decision-making is not appropriate will raise the WACC (Weighted Average Cost of Capital) and will result in a decline in the value of the company (Frensidy and Setyawan, 2007:15).

Wicaksono in Utama (2003) Said, the company's ownership structure is reflected either through stock or debt instrument, so that the structure can be analyzed through the possibility of a form of matter that will occur. Majority shareholder will control the management and can take decisions that can be detrimental to the minority shareholders, while the company that owns the nature of ownership spread (the proportion of shares owned by the public very large) Agency problems common among managers with shareholders and other stakeholders. In Indonesia the nature of ownership is relatively concentrated, this is evident with at least the average share ownership by the public, so it can be noted that the possibility of the agency problem will occur between the majority shareholder with other stakeholders. To maintain control of his company, the owners prefer to use debt, so the company will have a debt-equity ratio is very high. The decision about the use of a larger debt also has a big advantage for the controlling shareholder, namely the anxiety of the financial risk to the lender, or in another

Words the owners will enjoy all benefits if investments are successful, and creditors join the losses at a time when investments fail, in these conditions, the lender will ask for high interest loans and require a wide range of collateral in lending, so the use of a fairly high proportion of the debt will not be effective any longer.

Smith (2005) Said, influencing the capital structure of ownership structures. Companies that have different ownership structures tend to be choosing different financing patterns. Concentrated shareholder will have a stronger position in the presence of management because the amount of company stock that he owns a large in absolute terms automatically due to the concentration of ownership structures. The magnitude of the investment that has been embedded will encourage shareholders to monitor the condition of the company in order to secure that investment. Shareholders will be able to assess performance management more fully and contextual because understanding are pretty deep issues that companies are facing the following opportunities that should be capitalized. The stock structure of the dispersed will create shareholders that are not too enthusiastic in monitoring and analyzing the company's condition because there is an imbalance between the cost it takes to do it all compared to the value of the investment in the company. The strong position of shareholders before management will be very useful in discipline management to always take decisions that can maximize the value of the company. Through the mechanism of a general meeting of shareholders or directly through the Commissioner who represents the shareholders, the shareholders are able to monitor and hold accountable for the management of all decisions taken. Strict control of shareholders can have implications for the negative to management, in strict controls are not offset by compensation in a satisfactory monetary or other things besides the question of the magnitude of the salary and benefits such as the significance of the challenge business or recognition from business circles and society, especially in the tight control of the shareholders can be defined on the possible merger of the company with other companies, the turnover of management which is too frequent and things that can mendemotivasi management in work getting profit.

The capital structure is closely related to the structure of ownership. Letter of agreement signed by the debt management and bond holders provides a strong position before management. Management will tend to avoid debt to avoid an extra control from outside parties i.e. shareholders or banking. Management will tend to like anyway the dispersed shareholding structure. Because of the chances of the emergence of the issue of Agency, shareholders will encourage management to indebted in order to create a new watchdog that is the holder of the bonds or to discipline the banking management.

Business risk will also affect the composition of the capital structure. A lot of literature saying that determines the composition of the capital structure is one of the strategies to achieve financial objectives of the company, but the problem is to determine the composition of the capital structure has positive and negative impacts.

Disruptive is the addition of business risks that could interfere with the achievement of the objectives of the company. This is reflected by the increasing risk of bankruptcy because the company's management decided to choose more debt than capital alone. Although financing through debt had a positive impact, this could increase the company's value, but in fact the company was bound by duty to pay debt and resolve them. To support the growth of the company, the company must select the external funding. External funding need of high capital costs than by using internal funding. Companies with high growth conditions will select external funding. The growth of the company has a positive influence on the structure of capital. This is due to the increase in the ability of the company's growth is higher. The positive growth of the company will increase the confidence of the creditor in the company's financial program. Companies with a high positive growth will tend to use their own capital rather than debt.

Differences in capital structure, decision-making are influenced also by the type of the company, whether the company is Foreign or Domestic Companies. The Foreign company, majority shareholders are foreigners or foreign agencies. This is the opposite of the company, if the Domestic company, majority shareholder is a person or agency that originated from within the country. This will affect the funding policy of the company, as the owner of both types of corporate citizenship and culture also different from those countries differs, so that the decisions taken by the management of the two companies are also different. The characteristics of Corporate funding to Foreign and Domestic companies can be seen from the decision the use of debt from the two groups of the company, so that it will have an effect on the prosperity of the stock owners.

Brigham and Houston (2001) States: the policy of capital structure involves equalization (trade-offs) between risk and rate of return:

a. Use more debt means enlarge risks in shareholder responsibilities.

b. Use more debt also magnifies the expected rate of return.

This relates to Equity to Debt Ratio (DER) i.e. the ratio describes the relationship between the company's debt to capital or assets. This ratio can be seen how far the company financed by debt or outside parties with the ability of the company represented by the capital (equity). A good company should have a larger capital composition of debt, so that will affect the rate of return (ROE) of the company.

Leverage is a result of the use of fixed costs or funding to enlarge refunds to owners of the company. In General, an increase in the leverage resulting in an increased risk and rate of return, while the decrease in leverage resulted in a decrease in the risk and rate of return. The amount of leverage in the company's capital structure is a combination of debt and private equity that may affect significantly against the risk and rate of return.

Research on capital structure ever done by Zaretta and Sitinjak (2006) stated, Debt to Equity Ratio of the company with a controlling shareholder more conservative multinational corporations in their use of debt, owing an average of DER smaller than companies with controlling shareholder instead of multinational corporations. The conclusion is, the higher of DER so the lower ROE.

This fact motivates researchers to find out how the maximum amount of debt in the case of a company in the manufacturing sector. Because of the years 2010-2014 there are 525 companies that record the shares in Indonesia stock exchange. As many as 170 companies or 32.38% of the entire amount of the company records its shares in Indonesia Stock Exchange located in the manufacturing sector. Companies in the manufacturing sector, there is also a type of the Foreign and Domestic companies.

1.2 Outline

Based on the explanation that has been put forward in the background, a problem that can be addressed is whether there are differences influence the decision use of debt against the owner of the shares of the company between prosperity Foreign and Domestic manufacturing sector in Indonesia stock exchange?

1.3 Objectives

The purpose of this research is to examine in depth about the company's capital structure of Foreign and Domestic. The detail purpose of this research is to know the difference in the impact of the decision the use of debt against the owner of the shares of the company between prosperity Foreign and Domestic manufacturing sector in Indonesia stock exchange.

1.4 Research Contribution

This research is useful to give you an idea of the company's capital structure of the Foreign and Domestic, so knowingly use the policy and debt repayment rate company for the Foreign and Domestic. In addition, the study also gives an overview of the community to be able to take the right decisions to invest and produce long term profits higher in the capital markets. The society will become investors and the public that it has become an investor can reduce investment that can make her loss in investing, because the public can find out that the decision in the use of debt can affect the prosperity of the stock owners. With such knowledge will produce community and smart investors in investing. In addition, the results of this research as well as an additional reference for the science in the field of capital market, particularly about financial management.

II. RESEARCH METHODS

This research is a research Verifikatif. The research of Verifikatif basically aimed to test the influence/relationship of causality from any of the hypotheses presented accompanied by empirical data. (Ety Rochaety, et al. 2009).

This study uses secondary data. As for the secondary data in the form of Foreign Direct Investment and Domestic corporate data in Indonesia stock exchange. The data used in this study, i.e., financial reporting data for the years 2010-2014. The population in this research is a company incorporated in the manufacturing sector in Indonesia stock exchange period 2010-2014. The procedures used in the selection of the sample were sampled with the method of judgement sampling namely sampling, where researchers first set criteria from the sample, namely:

1. Manufacturing companies listed on the Indonesia stock exchange before the year 2010.
2. Foreign Company on the Manufacturing sector.
3. Domestic Company on the Manufacturing sector.
4. Foreign company in the manufacturing A sector which is always reported Financial statements in 2010-2014.
5. Domestic Company in the manufacturing Sector always report financial report 2010-2014.

Based on the defined criteria, obtained as 30 companies that meet the criteria as a sample. Where the amount of the foreign company's number of 15 companies and domestic companies as much as 15.

1.3 Data Analysis Techniques

1. Descriptive statistical tests

Descriptive statistics give an overview or description of a data from the average (mean), standard deviation, maximum and minimum (Ghozali, 2013).

2. Hypothesis

Methods of analysis in this research are, panel data regression models.

$ROE_{FOREIGN} = \alpha_1 + \beta_1 DER_{FOREIGN} + e$ ……. (1)

$ROE_{DOMESTIC} = \alpha_2 + \beta_2 DER_{DOMESTIC} + e$ .... (2)

Description :

$ROE_{FOREIGN}$ = *Return On Equity* FOREIGN Company

$ROE_{DOMESTIC}$ = *Return On Equity* DOMESTIC Company

$DER_{FOREIGN}$ = *Debt To Equity Ratio* FOREIGN Company

$DER_{DOMESTIC}$ = *Debt To Equity Ratio* DOMESTIC Company

β_1, β_2 = regression Coefficients

α_1, α_2 = regression Constant

3. RESULTS

3.1 Descriptive Analysis

Here is the data on the average Debt Equity Ratio (DER), and the rate of return the company proxy with a Return On Equity (ROE) Foreign and Domestic company in the manufacturing sector in 2010 up to 2014.

Table 1.

Average DER and ROE company Foreign and Domestic companies

Descriptive Data	Average
FOREIGN Company - DER	0,851467
DOMESTIC Company - DER	0,868667
FOREIGN Company - ROE	37,75093
DOMESTIC Company - ROE	20,53147

Source: Output E Views, processed

Based on table 1, the average visible DER company Foreign i.e. about 0.851467 or 85.1467 percent and DER company Domestic i.e. of 0.868667 or 86.8667 percent. The difference in the average (the mean is a difference) of 1.72 percent (85.1467 cent-86.8667 per cent). While the average ROE Foreign company i.e. of 37.75093 percent and ROE Domestic company i.e. amounting to 20.53147 per cent. The difference in the average (the mean is a difference) of 17.21946 per cent (37.75093 cent-20.53147 per cent).

3.2 The Influence of debt (DER) to the financial performance (ROE) on Foreign and Domestic company in the manufacturing sector for period 2010-2014 BEI.

Gujarati (2007:683) says that for the data panel, method of Generalized Least Square (GLS) this is a better and consistent compared to the OLS method. This is due to the method of GLS can be analyzed with a fixed effects model (FEM) and random effects models (REM), so that it can be known which model is best. To determine which model is the best in the GLS method can be done with Test Hausman.

1. The selection of Model Estimation by Hausman Test

The Hausman test aims to compare between the method of fixed effects and random effects method. The results of testing by using this test is knowing which method should be chosen. The following is the output from the test-Hausman.

Table 2

The result of *Hausman test*

Model	*Chi-Sq. Statistic*	Probabilities
Model 1	160,548547	0,0000
Model 2	49,738095	0,0000

Source: Output E Views 8.0, processed

On the calculation has been performed, it can be seen that the probability value 0.000 Hausman test is. Hausman test probability values for model 1 and 2 less than 5%. Therefore, based on 95% confidence level the data supports that the preferred method used in model 1 and model 2, namely the method of random effects.

The results of the estimation of regression to model 1 using random effects are as follows:

Table 3

The results of the estimation of Regression to Model 1

Variable	Coefficient	t-statistic	R^2
C	27,55777	6,733794	-
DER FOREIGN	11,97130	2,624720	0,924634

Source: Output E Views 8.0, processed

In general the first equation of this research is as follows:

ROE Foreign = 27.55777 + 11.97130 (DER Foreign)

Based on the table above, a partial test by looking at the value of t-statistics for the variable DER is 2.624720. The value of t-statistics for the variable value greater than DER t-table i.e. 1.667. Therefore, based on 95% confidence level the data supports that DER has significant effects against ROE of Foreign company.

It can be concluded that based on this research, hypothesis 1 received, because based on the partial test produces independent variables in the model I have significant influence towards an ROE Foreign company. It should be noted that the value of the coefficient is positive the 11.97130 DER means that the higher the DER so the higher the company's ROE also on Foreign.

The value of R2 that are generated by the model was 0.924634 or whose meaning 92.46% variation in the dependent variable can be explained by variation in the independent variable. The remaining 7.54% explained by other factors outside of modeling.

The results of the estimation of the regression for hypothesis 2 using the method of random effects in the model 2 studies are as follows:

Table 4

The results of the estimation of Regression to Model 2

Variable	Coefficient	T-statistic	R^2
C	16,13926	7,635459	-
DER DOMESTIC	5,056261	2,301071	0,484797

In general the second equation from this research are as follows:

ROE DOMESTIC = 16.13926 + 5.056261 (DER DOMESTIC)

Based on the table above, a partial test by looking at the value of t-statistics for the variable DER 2.301071 is. The value of t-statistics for the variable DER larger than t-table i.e. 1.667. Therefore, based on 95% confidence level the data supports that DER has significant effects against ROE Domestic companies.

It can be concluded that based on this research, hypothesis 2 received, because based on the partial test produces independent variables in the model II has significant effects against ROE Domestic companies. It should be noted that the value of the coefficient is positive the 5.056261 DER means that the higher the DER so the higher the Domestic company ROE also.

The value of R2 that are generated by the model was 0.484797 or whose meaning 48.48% variation in the dependent variable can be explained by variation in the independent variable. The remaining 51.52% explained by other factors outside of modeling.

After testing, it is evident that there are indeed differences influencing the use of debt (DER) against the financial performance (ROE) between the Domestic company and the Foreign company. The difference can be seen from the elasticity of firm Foreign and Domestic companies. Between the two companies, it turns out that the company's ROE Foreign is more sensitive to changes in the company, namely DER if DER company FOREIGN rising 1 percent, than the company's ROE will increase of 11.97130 percent. In contrast to the Domestic company, if DER Domestic companies experienced a rise of 1 per cent, then the company's ROE will only increase of 5.056261 percent. The increase in the company's ROE Foreign differs greatly with the increase in ROE Domestic companies. From the results of the study can be seen that many prefer the Foreign company debt in running its business operations, but the company can provide a high ROE also. The Foreign company had high debt levels, but the company increase sales, improve profits so the Foreign company and ultimately the can provide a high ROE to the owner of the company, while the Domestic company's debt level has the is high, but the company's ROE levels lower than ROE Domestic and Foreign company. From the foregoing, it can be seen that the financial performance of the two groups of companies is different. For the company's financial performance, the Foreign company is higher with high corporate debt, while the Domestic company's debt level has high, but not accompanied by a high level of ROE, did not follow the company's level of DER.

The higher the level of debt the company would increase the risk of bankruptcy of the company, so that if DER higher than in the end result in ROE goes down. If ROE goes down, the Foreign company's financial performance means will also decline and lead to the well-being of the owner of the company will be reduced. This will cause the owner of the company felt aggrieved and will eventually reduce their confidence in the Foreign company. It will also result in a revocation of the stock investor and they will be interested in investing in the Foreign company, the Foreign company is very conservative in the use of the company's debt to generate the high ROE, so that will increase the well-being of the owner of the company, while the Domestic company has debt levels is high but low ROE. The high level of debt the company is not followed by high rates of ROE provided by the management of the company to the owner of the company.

Based on the results of the calculations can be known the DER Foreign company more same height as DER Domestic companies. In the period 2010-2014 Foreign companies have an average DER 85.1467 percent and 86.8667 percent of Domestic company. Based on these data may be known that the Domestic company and the Foreign company's using debt as an alternative in fund operations of the company, so the Foreign and Domestic company's management should be more conservative in using that company's debt. However, the management used two groups of companies are different, in the company of the Foreign, the decisions taken by the management of the company is derived from the management of the parent Foreign company. In addition, the decision by shareholders of the company whose majority are foreigners who installed interest in Indonesia, while in the company's majority Domestic shareholders is the people in the country.

Based on the results of the calculations can be known that turns the Foreign company's ROE higher than the Company company's ROE. In the period 2010-2014 Foreign companies has an average ROE of 37.75093 per cent and 20.53147 per cent of Domestic companies. This is due to the firm Foreign further enhanced sales to generate profits and ultimately improve the company's ROE. In contrast to a Domestic company providing the company's lower ROE.

4. CONCLUSIONS and SUGGESTIONS

4.1 Conclusions

The results of the analysis that has been done, the basis for comparing the influence of the Debt to Equity Ratio against the Return on Equity in the Foreign and Domestic company, then it can be summed up as follows:

1. There is a difference of influence in the Use of debt (DER) against the financial performance (ROE) between the company and the Domestic and Foreign company. The difference is seen from the two companies, the elasticity of the visible that ROE of Foreign company is more sensitive to changes in the company than in DER of the Domestic company.
2. Debt (DER) of Foreign corporate is lower compared to DER of Domestic companies. But the difference is not so great, the difference is only about 1.72 percent.
3. There is a difference between the financial performance (ROE) the company the company's financial performance with Foreign and Domestic companies. The Foreign company of ROE is higher than the ROE of Domestic company's ROE.

4.2 Suggestions

Based on the results obtained, the authors propose some suggestions as follows:

1. For investors and potential investors can be more observant in deciding which companies will be chosen to invest their funds. Companies with good funding policies certainly would be more beneficial for investment, because it turns out that these policies have an impact on the profitability of the company.
2. To company management, the Domestic company must provide financial performance (ROE) are high, following the company's level of DER in order to attract investors.
3. For the next researcher, it is advisable to pay attention to other variables that affect the company's ROE levels, i.e. the magnitude of the interest paid by the company, the net profit margin, total assets turnover Return on Assets of the company and. .. In addition, for the researchers next expected to take samples of the company on other sectors to get the best results.

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