

Interdependence between Institutional Ownership and Leverage of Free Cash Flow: The Development of Agency Theory Model in Balancing Conflict of Interest in Indonesian Company

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Abstract

Agency conflict arises due to the differences of interest between owner, manager and creditors. Therefore, the researchers are trying to find the appropriate model in order to reduce the agency conflict issues that occur. The uncommon thing which became the originality and the recency of this study is to consider the interdependence relationship of institutional ownership variables and leverage to assess the appropriate control of the agency conflict that occurs by considering the real situation and circumstances faced by the company when the investment opportunities is high and low as well as high and low company risk. This study uses data of listed companies in Indonesia Stock Exchange (IDX) with the data for 12 years. The analysis technique used is simultaneous equations with GMM estimation techniques (Generalize Method of Moment). This research provides practical implications for owners, managers, creditors, investors, and capital market regulation in considering decisions related to the mechanism controlling agency conflicts through institutional ownership, leverage on free cash flow faced by companies in Indonesia, so that they can make decisions and provide useful strategic considerations useful for the companies, government regulation, banks (lenders), and society.

Keywords: Agency Conflicts, Institutional Ownership, Leverage, and Free Cash Flow
