oppotunistic manager

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Opportunistic Manager and Capital Structure Decision of Property Companies in Indonesian Capital Market

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Abstract. *An opportunist manager in property companies tend to take opportunity for himself while aggrieving the owner over the decision. This study focuses on determining the effect of managerial opportunism on capital structure decisions within property companies. Control from blockholders and capital market conditions plays a role in controlling opportunistic managers towards funding decisions. The data collected covers 25 property companies from 2000-2016 listed on Indonesia Stock Exchange. The analysis of data uses logistic regression that is able to measure capital structure decision on dummy variable. The conclusion shows that managerial opportunism and capital market condition influence the decision of capital structure, while outside blockholders on the other hand gives no effect. The contribution of the study indicates that the role of managers in company is deeply influential, that every manager who acts opportunistically would degrade the company's performance and harms the shareholders as well as investors.*

Keywords: *agency conflict; capital structure decision; managerial opportunism; outside blockholders; stock market condition*

Abstrak. *Peran manajer pada perusahaan properti yang opportunis cenderung mengambil kesempatan untuk dirinya, sehingga pemilik perusahaan dirugikan. Penelitian ini bertujuan untuk mengetahui pengaruh managerial opportunism di perusahaan sektor properti terhadap keputusan struktur modal. Kontrol dari outside blockholders dan stock market condition akan berperan dalam mengendalikan manajer yang oportunis dalam pengambilan keputusan pendanaan. Pengambilan data dimulai dari tahun 2000-2016 dan diperoleh 25 perusahaan sektor properti yang terdaftar di Bursa Efek Indonesia. Analisa data menggunakan regresi logistic yang mampu mengukur keputusan struktur modal dengan dummy variabel. Hasil penelitian menunjukkan managerial opportunism dan stock market condition berpengaruh terhadap keputusan struktur modal, sedangkan outside blockholders tidak berpengaruh terhadap keputusan pendanaan. Implikasi dari penelitian ini menunjukkan bahwa peran manajer dalam perusahaan adalah penting, sehingga setiap manajer yang bertindak oportunis akan menurunkan kinerja perusahaan dan merugikan pemegang saham serta investor.*

Kata kunci: *konflik keagenan; keputusan struktur modal; managerial opportunism; outside blockholders; stock market condition*

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Introduction

A company's need of capital could be obtained from the options of internal or external funding source. When the need of capital exceeds the internal funding source amount, the better option would be to use external funding. A manager would attentively decide on capital structure in order for the company to have a persistent competitiveness (Komara, Hartoyo, & Andati, 2016). Capital structure considers the proportion of debt and equity of a company. In order to fulfill external funding needs, a manager and the stockholder would decide on debt-equity issue. A decision of an optimal capital structure is crucial for the existence and performance of a company (Ehrhardt & Brigham, 2011:328).

Theoretically, a company tends to choose internal funding over external funding. In contrast, when a company choose to use external funding, the owner of the company would most likely choose debt over issuing shares. When issuing shares, the ownership of the company would be shared with the other new stockholders. In the other hand, when a manager choose to use external funding, he or she would choose to issue shares rather than debt, in order to avoid work pressure in relation to debt repayment (Ooi, 2000; Gathogo & Ragui, 2014).

A manager holds an important role in making a decision for the company's capital structure – whether it is by issuing shares or debts. In cases where manager only owns a small percentage of the company's ownership, they tend to use the company's benefit for their own personal profit. Such situation is called as a managerial opportunism. In the agency theory, a situation in which a conflict occurs between the stockholders and the manager is called as moral hazard (Ooi, 2000). The problem of managerial opportunism is notably related with the managerial system in a property company.

The manager has a long period time to manage investments in property projects, while the return from the projects is not able to be achieved in a short time. The bigger scale of project development, the longer time of the investment will be. A manager has a lot of chance due to his authority to use the company's fund for personal use, in order to create an image in front of the public, particularly in relation to funds from down payments for developed or developing projects.

Additionally, the authority of outside blockholder in the company's ownership structure indicates individual (not affiliated to the manager) or institution (including insurance company and foundation) that owns a share above 5%. The role of an outside blockholder is to supervise and control unoptimal manager's activity (Kararti, 2014). With the large portion of ownership, outside blockholder owns the incentive in investment decision making, incentive in company's capital structure decision making, and control over costs spent by the manager (Ooi, 2000).

The existence of outside blockholder influence reduction of a manager's personal usage of company's funding, so the agency cost could be reduced. In general, outside blockholder prefers to use debt as a funding option in order to keep the shares. In contrast, a company sends a bad signal to investors when issuing shares, because it would be seemed that the company is in need of funding, therefore it could reduce the value of company. The previous shareholder would be aggravated with the new shareholder ownership. Outside blockholder would try to protect their own importance by controlling managers who take part in the ownership of company. They would make sure that manager does not do negative actions such as making investments that inflict loss to the owner and shareholder of company or using profit of company for the manager's concerns.

Previous researchers have shown examples of a manager's action that leads to their personal interest. Managers who have experience of investment would care only for his own benefit and would not consider benefit that the shareholders desire (Gathogo & Ragui, 2014; Ghouma, 2017). A manager's discretion in reporting the financial information would cause the manager to use his own judgment when the company faces a loss from debt. Also, the manager could manipulate income and expense of the company while investment takes place (Kieschnik and Urcan, 2006; Stepanov & Suvorov, 2009). Some corporate financial scandals are related to managerial opportunistic incentives resulting from excessive capital expenditures, firm distress sign, financial leverage dan free cash flow (Fei, 2015).

The financial structure of a company shows the existence of Free Cash Flow (FCF) earned after being used as capital or asset investment. FCF would define cash position available for shareholder (Rosdini, 2005). Funding through debt plays an important role in limiting managerial opportunism, especially when a company has a big FCF. Bigger debt would raise a chance of bankruptcy and job loss for the manager, therefore would motivate the manager to reduce consumption as well as to raise efficiency (Rahayu, 2005). Ooi (2000) and Eriotis, Vasiliou, & Neoksmidi (2007) also identifies that both stock market condition and a company's characteristics are influential factors towards company's capital structure. Condition in stock market would encounter long-term and short-term changes that might influence an optimal company capital structure (Rahmiati, Tasman, & Melda, 2015).

Therefore, in terms of issuing and selling security, a company has to adapt situation of stock market. Meanwhile, the characteristic of a company in its nature would reflect fundamental condition of the company (Eriotis et al, 2007). A condition that conflicts between a company's internal and external scope, especially a company in the property sector, depends on the company's firm size and free cash flow. Furthermore, it will carry an impact towards the decision of capital structure.

According to the trade-off theory, the different views of manager towards choosing capital structure is to optimize capital structure in times when the benefit from debt and cost of debt is balanced (Mutamimah & Rita, 2009). Asymmetrical information occurs between the manager and the investor. The manager has more information regarding funding decision than the investor, refers to a funding decision that is preferred by the manager and investor. Therefore, it develops according to the pecking order theory. Brealey, Myers, & Marcus (2008: 25) stated pecking order theory is a company prefers internal funding, for funds are collected without showing negative signals that could reduce stock price. If a company is forced to use external funding, the options are either to use debt or to issue equity as their last option.

This contradiction creates an opening for this research to observe the influence of managerial opportunism, outside blockholders, stock market condition, and a company's characteristic as a control variable, towards the decision of capital structure decision, especially on property sector registered in the Indonesia Stock Exchange (IDX). Each property sector has their own uniqueness corresponding to their sub-sector (residential, commercial, industrial estate) which will be evaluated according to the fundamental conditions.

Capital Structure

Capital structure is the judgment comparing amount of debt and amount of equity owned by a company. In fulfilling the capital need, a company has the option to use internal funding through equity. Thus when a company uses external funding, it has the option to use either debt or shares issue (Huang and Vu Thi, 2003). According to Gitman & Zutter (2015: 546), capital structure is a merge of debt and equity owned by a company. The company which choose debt as a source of fund would get the benefit of tax shield and as a result would raise its profit.

However, the company is obliged to pay cost of debt, which is expense interest. Capital obtained through issuing shares could be used by the company only if its debt has surpasses the received benefit or when the company's operating income is considered insufficient to fund the company. However, the option of funding through issuing share is not preferred by company owners since an issuing fee would be charged.

Akbor and Biekpe (2009) stated that capital structure is a combination of long-term debt and equity. It is important to realize that a good combination would produce an optimal capital structure in relation to the source of fund (Bayunitri, 2015). An optimal capital structure is a condition in which a company is able to combine debt and equity ideally by balancing the value of company and the cost of capital (Firnanti, 2011). Selection of internal and external funding would have a different impact towards the profit earned by the company. External funding would reduce company profit because the company would have to pay debt, although at the same time the tax would be reduced. On the other hand, external funding would not reduce tax payment (Sutrisno, 200: 307).

Capital structure policy of a company involves the existence of trade-off between obtained risk and return. Trade-off theory explains the relation between tax, bankruptcy risk, and usage of debt caused by capital structure decision taken by a company (Brealey et al, 2008: 25). The optimal level of debt could be obtained by balancing between the benefit of interest payment and cost of debt utilization (Jahanzeb, Rehman, Bajuri, Karami, & Ahmadimousanbad, 2014). The use of debt would only increase the value of the company to a certain point and beyond that points, it would decrease its amount. Improving the benefits of debt, however, is not comparable to the cost of bankruptcy and agency problem. The returning point is called optimal capital structure that shows an optimal amount of debt (Kodrat & Herdinata, 2009: 113).

Sheikh & Wang (2010) stated that trade-off theory is expected to be used in choosing a capital structure to maximize value of a company with the least cost. The flaw of this theory is that it is unable to precisely decide the optimal capital structure. However, some points are to be taken into notice:

a. A company with a higher asset value would have a big probability of financial distress which leads to use of debt.
b. Fixed assets, intangible assets, and the chance for a company to grow would reduce in value when a financial distress occurs. A company with this kind of asset would want to make a small number of debt.
c. A company obliged to pay a high amount of tax should preferably use debt compared with a company obliged to pay a low amount of tax.

Even though a trade-off theory model might look logical, empirically the supporting proofs are not strong enough. This fact shows that there are factors not yet considered in the model (Atmaja, 2008: 260) that require further observation.

Pecking Order Theory

Pecking order theory stated that a company has certain choices in managing capital for its funding (Atiyet, 2012). Pecking order theory shows that a company prefers internal source of fund rather than external source. Given that, when a company needs external source of fund, the manager would tend to choose securities such as debt (Sudana, 2011: 156). The argument of pecking order theory is asymmetrical information that creates a hierarchy on cost of external funding (Tong & Green, 2005).

As predicted by the pecking order theory, external funding is the final option for a company (Bistrova, Lace, & Peleckiene, 2011). A manager tends to issue shares when the share is overvalued, and tend to issue debt when the debt is overvalued (Sudana, 2011: 152). The weakness of pecking order theory is that it puts aside agency issue that could possibly surface when a company uses debt in its capital structure.

One internal source of company fund is free cash flow (FCF), which is a position in which cash is truly available for the stockholder of the company (Rosdini, 2005). Damodaran (2015:312) also stated that FCF is a cash flow available for the investor after the calculation of tax payment and investment needs. FCF could also be used as discretionary such as acquisition, credit payment, and payment to stockholder. With a bigger amount of FCF owned, a company's well-being is demonstrated because it has the sufficient cash in store for the company's growth, debt repayment, and dividend payout (Rosdini, 2005). The manager would put an effort in utilizing FCF for the importance of reinvestment. The purpose is to raise the company's productivity which would raise the potential of company growth (Syafi'i 2011).

Agency Theory

The position of a manager in the agency theory explains the contractual relationship between the owner as the principal who gives the authority, and the manager as the agent of the company who submits to the authority. The owner implicitly agree to give such financial privileges ("financial carrots") to their manager (Dion, 2016). This relationship is in the form of cooperative contract. Agency theory assumes that each individual is solely motivated by his own motives, which creates a conflict between the interest of a principal and an agent. Such conflict is caused by a separation between ownership and management of the company. In its development, agency theory is divided into two courses:

1. Positive Theory of Agency, which focuses on the identification of situation when stockholder and manager as the agent clashes, yet the government regulation that limits self-saving force act within the agent.
2. Principal Agent Literature, which focuses on the optimal contract between the attitude and the result emphasized in the relationship between stockholder and agent (Jensen and Meckling, 1976).

According to Eisenhard (1989) agency theory is based upon 3 (three) assumptions:

a. Assumption of human behavior
   Assumption of human behavior emphasize that human has the nature of self-interest, bounded rationality, and risk aversion.
b. Organizational assumption
   Organizational assumption reveals the conflict between organization members, uses efficiency as the criteria of productivity, and conduct the existence of Asymmetric Information (AI) between principal and agent.
c. Assumption of Information.
   Assumption of information states that information is viewed as a tradable commodity.

Jensen and Meckling (1976) differentiate asymmetric information into two: adverse selection and moral hazard. Firstly, adverse selection is condition where the principle is unable to perceive whether the decision made by the agent is accurately based upon obtained information or as a negligence of duty. On the other hand, moral hazard is the problem raised when the agent fails to carry out things that has been agreed upon an employment contract.

Managerial Opportunism & Outside Blockholders

A manager could do action that does not benefit the company as a whole or even disadvantageous on the longer term. Granted that, shareholders as the fund and facility provider, has the concern of securing the fund and facility used in the operation of the company, because they are concerned about the security of the funds invested into the company. An opportunistic act by a manager to use the company's fund for his personal use according to the number of shares the manager owned is called managerial opportunism. It is a situation where the manager is also a shareholder of the company (Christiawan & Tarigan, 2007).

Furthermore, when the manager concurrently is the owner of the company, there would be no chance for the manager to act opportunistically. If the manager does, he or she would also bear the consequence of loss or even bankruptcy. The policy of manager ownership aims to give the manager to be involved with the ownership of shares, aligning the manager on the same position as the shareholders, who owns the company.

On the other side, ownership of shares above 5% from a personal (not affiliated to the manager) and institution (including organization and Insurance Company) is called as outside blockholders. In a company, their main role is to monitor and watch over the company, as well as to prevent the manager's action that might bring loss to the company (Asmawati & Amanah, 2013). When a company has outside blockholders in its ownership organization, control and supervision over the performance of the manager could be tracked well (Dewi, 2008). Institutional ownership holds the biggest shareholder, making it a good means to monitor the management (Machmud & Djakman, 2008), for the characteristic of the company indicates the fundamental condition of the company (Eriotis et al, 2007).

Ooi (2001) explained the character of a company is indicated through free cash flow, tax burden, target debt ratio, default risk, and firm size that are used as the control variable. In other words, the variable is created to be constant in order for the free variable to be unrestrained from other undesired variables in the research. Trade of theory states that target optimal debt ratio could be used by the company to consider the balance between cost and benefit of using debts. The amount of gross income earned by the company decreases after debt interest, and therefore reduces the amount of company's debt. On the other side, when a company uses debt, the risk of bankruptcy escalates. The size of the company would also ease the company's access to debt when the company size is smaller, their access towards debt is also smaller.

Managerial Opportunism, Outside Blockholders, Stock Market Condition against Capital Structure Decision

Managerial opportunism is indicated through the percentage of managerial ownership. According to Antari & Dana (2013), an increasing number of shares owned by the manager through managerial ownership would motivate the performance of the management, because the manager believes that he or she plays an important role in the company both in decision making and responsibility. The system applied by the manager would affect to the company's performance, as the decision on funding is affected by the managerial ownership of shares.

In a research by Christiawan and Tarigan (2007) it is shown that a manager who is concurrently a shareholder would be more careful in taking debt policy because the manager would not want the company to get face financial crisis or even bankruptcy. Both problems would be disadvantageous for the manager's position. However, Ooi (2000) and Dewata, Sari, & Fithri (2016) stated that a manager who owns a company's shares would prefer to make debt than issuing shares. If share-owning manager choose to issue share as a source of fund, then he will risk the ownership of the company to be shared with the public. Such condition would direct a manager to prefer using debt.

This fact does not agree with a research by Larasati (2011), in which shareholding does not significantly affect capital structure given that the manager's position is not to make decision even though he or she is a shareholder. This is due to the amount of shares owned by the manager isn't comparable with the shares owned by outside blockholders, which exceed 5%. Therefore, the funding decision does not rely upon the manager's decision. A company with outside blockholders will boost surveillance control towards the manager's performance (Dewi, 2011). When the ownership of outside blockholders increase, the use of debt in a company's financial structure would also increase (Kamaliah & Syafitri, 2010; Larasati, 2011).

Outside blockholders prefer to keep the shares to themselves, leaning them towards the choice of funding through debt. Such condition would drive the manager to step up their performance in order to avoid inability to pay off debts. Dewata et al (2016) showed that outside blockholders have a significant effect on capital structure. A higher number of outside blockholder would reduce the usage of debt, since a company who chooses to make debt has the chance of payment failure which leads to bankruptcy. Such risk causes outside blockholders to agree on issuing shares rather than debts.

Other external factor includes stock market condition, which significantly affect the decision on capital structure. When the bearish stock market, through asymmetrical information indicated by IDX Composite, is showing a rise in the share price of a company, said company stands to gain more profit by issuing shares. Moreover, asymmetrical information arises when a manager has a relevant information regarding funding decisions, while the stockholders has no such information (Sujana, 2010). When asymmetrical information owned by a company reduces, it shows a good signal for potential investors, and thus encourages the company to take the chance to issue shares.

On the other hand, free cash flow, tax burden, target debt ratio, default risk, and firm size are used as controlling variables to fundamentally describe the performance and characteristic of a company (Ooi, 2000). When a manager is able to make a decision on capital correctly, a bigger free cash flow would be created. Free cash flow is defined as a company's income after being used as capital and investment. Faisal (2004) shows how free cash flow is significant in a company's capital structure decision: a company with greater free cash flow has a higher tendency to use debt. The use of debt could suppress asymmetric information, pushing the manager to use free cash flow to pay for company activities which does not benefit the company and stockholder.

Comparatively, another view states that a manager's behavior is monitored when investing through debt, so the free cash flow will not be wasted for unprofitable investments (Wu, 2004; Astuti & Nurlaelasari, 2013; Rahman & Triani, 2014). In the contrary, Ooi (2000) stated that free cash flow has no significant effect towards capital structure in Property Company listed in the Indonesia Stock Exchange. Its amount does not affect the funding decision both for the importance of the manager or the company owner. With a higher tax set by the government, the company are benefited when using debt (Ehrhardt & Brigham, 2011:73).

Iriansyah and Dana (2013) displays that tax burden has significant effect towards capital structure decision, yet when the company tax is great, a company would tend to issue shares and not receive any tax benefit from debt. In another research by Widayanti, Triayati, and Abundanti (2016), it is stated that tax burden is insignificant towards capital structure decision. Corresponding to the trade-off theory, a company dares not to take a higher risk by funding its activities by making higher debt in order to obtain lighter tax from interest expense. A manager is required to take into consideration the balance between bankruptcy cost and the obtained tax saving. Also, a company would tend to use debt over shares issue when its position is above target debt ratio, because when the amount of debt is measured with target debt ratio, it would significantly affect the company's capital structure decision (Ooi, 2000).

Furthermore, the risk and the size of the company would also affect to the decision (Puspida & Budiyanto, 2013; Febridinata & Fachruzzaman, 2013; Pertiwi & Artini, 2014; Wahome, Memba & Muturi, 2015). A company is in a higher risk of debt payment failure when it has a higher debt level. In such condition, the company would avoid additional debt in its funding. In contrast, risk seeker profiled investor has less interest on low-risk companies and is more interested in high risking companies – in accordance to the assumption of high-risk high return (Seftianne & Handayani, 2011).

Finally, bigger company would also tend to use debt, because small companies have less access towards the debt market (Ooi, 2000). Although this may be true, Liu and Ning (2009) states that firm size has no significant effect toward capital structure. However, pecking order theory states that both bigger and smaller companies prefer internal funding compared to the external one. This goes in line with the statement by Firnanti (2011).

Research Methodology

Capital structure decision becomes the dependent variable that indicates the decision of companies in search of operational fund through issuing debt or long-term debt (bank debt and or issuing bond). Independent variables include managerial opportunism (MGT), outside blockholders (INST), stock market condition (MKT), and company characteristic.

A manager's opportunistic behavior is measured by the percentage manager's (director and commissioner) share ownership. Outside blockholders are the amount of shares by the manager's non-affiliates and institutions above 5%. Stock market condition is interpreted as the risk that illustrates the condition in which short-term and long-term change occurs, as well as impactful towards the macro economy condition (Rahmiati et al, 2015).

The characteristic of the company is the control variable that defines the fundamental condition of the company. It is measured through the indicators of Free Cash Flow, Tax Burden, Target Debt Ratio, Default Risk, Firm Size (Ooi, 2000). Free Cash Flow (FCF) is interpreted as the flow obtained by the company after the operational cost is reduced, as shown in Table 1.

Table 1.
Formula on Indicator

Indicator	Formula
Dependent variable	
Capital structure decision	1 = shares and 0 = debt
Independent variable	
Managerial opportunism (MGT)	the percentage of manager's (director and commissioner) share ownership
Outside blockholders (INST)	the amount of shares by manager's non-affiliates and institutions above 5%
Market condition (MKT)	Indonesia Stock Index (IHSG) from year 2000-2016
Free Cash Flow to Total Asset (FCF)	(Earning before interest and tax – tax from EBIT – fixed asset expenditure – changes in net working capital + non-cash) / Total asset
Tax burden (TAX)	Tax Payment for the Preceding Year/ Book Value of Total Asset
Target debt ratio (TDR)	Debt to Equity Ratio / Average Debt to Equity Ratio$_{(t-1)}$
Default Risk (RSK)	Beta/ (1 + (1 - tax) x Debt to Equity Ratio
Firm size (SZE)	Log Total Asset

Source: Hamada (1972); Ooi (2000)

The sampling method used is through purposive sampling in property sector companies listed in the Indonesian Stock Exchange. The criteria of samples are as follows: the yearly report in the research period has to be completely available as well as the manager's and outside blockholders' share ownership percentage information. Data sampling was taken through Bloomberg with advance research. Afterwards, logit regression technique is applied to analyze the data, processed with IBM-SPPS 21, with the following research model:

$$\text{Logit (p)} = \beta_0 + \beta_{MGT}\,\text{MGT} + \beta_{INST}\,\text{INST} + \beta_{MKT}\,\text{MKT} + \beta_{FCF}\,\text{FCF} + \beta_{TAX}\,\text{TAX} + \beta_{TDR}\,\text{TDR} + \beta_{RSK}\,\text{RSK} + \beta_{SZE}\,\text{SZE} \quad (1)$$

Hypothesis:
Managerial opportunism, outside blockholders, stock market conditions and control variables of company characteristics influence the capital structure decisions of property sector companies listed on the IDX.

Results and Discussion

The sampling of the financial report of property companies year 2000 – 2016 in IDX show that 25 companies fulfill the criteria of purposive sampling. Among the total of 107 data, 91 data chose to use debt and 16 others chose funding through share issue. Data discretion are shown in Table 2.

Capital structure decision of a company uses a dummy variable, in which more company decided to use debt over share issue. Other indicators are counted according to the formula explained above. The average share ownership by managers is at 1.72% and 50.53% at maximum (Rista Bintang Mahkota Sejati, Tbk.). The average amount of the share owned by outside blockholders is at 63.15% and 98.84% at maximum (Plaza Indonesia Realty, Tbk.). The condition of the stock market shows the average IDX Composite of 4241.54. The result of the test is displayed in Table 3.

The logistic regression model that comes out with the data analysis above is:

$$\text{Logit (p)} = 4.786 + 11.955\ \text{MGT} + 1.356\ \text{INST} - 0.001\ \text{MKT} + 4.913\ \text{FCF} - 22.322\ \text{TAX} + 0.047\ \text{TDR} + 1.096\ \text{RISK} - 0.452\ \text{SZE}$$

Hosmer and Lemeshow Test Goodness of Fit Test are applied to the model, resulting in the number 0.613 > 0.05. The logistic regression model becomes acceptable because of the fitting data. Logistic regression coefficient value determination, according to the Nagelkerke R Square value of 0.265, shows that the independent variable can demonstrate 26.5% against the dependent variable.

Table 2.
Variable Description

Variable	Minimum	Maximum	Mean	Std.dev
D-E Choice (Y)	0	1	.15	.3580
Managerial Opportunism (MGT)	.0000	.5053	.0172	.0579
Outside Blockholder (INST)	.2425	.9884	.6315	.1908
Stock Market Condition (MKT)	416.3210	5296.7110	4241.5367	1147.0569
Free Cash Flow (FCF)	-.0504	.2627	.0736	.0570
Tax Burden (TAX)	-.0114	.1010	.0192	.0190
Target Debt Ratio (TDR)	-1.8217	89.8756	1.7984	8.6423
Default Risk (RISK)	-.1860	1.6864	.6209	.3541
Firm Size (SZE)	11.1045	13.4634	12.4963	.6060

Table 3.
Regression Logit Output

Predict	β	Std.error β	Wald's X^2	*df*	ρ	e^β (odds ratio)
Intercept	4.786	8.533	0.315	1	0.575	119.853
MGT	11.955	5.951	0.293	1	0.045	155561.312**
INST	1.356	2.506	0.785	1	0.588	3.881
MKT	-0.001	0.000	0.315	1	0.011	0.999**
FCF	4.913	5.545	1.415	1	0.376	136.042
TAX	-22.322	18.767	1.178	1	0.234	0.000
TDR	0.047	0.085	0.518	1	0.584	1.048
RISK	1.096	1.010	0.300	1	0.278	2.992
SZE	-0.452	0.628	6.449	1	0.472	0.636
Nagelkerke R Square						0.265
Hosmer and Lemeshow						0.613
Omnibus Test						0.025

** p-value 5%

The significance value of omnibus test is 0.025 < 0.05, as adding the independent variable would give an impact towards the fitting model. The result of logistic regression test shows that managerial opportunism and stock market condition compellingly affect the capital structure decision in property company with the p-value of 0.045 < 0.0.5 and 0.011 < 0.05. While the variable of outside blockholders, free cash flow, tax burden, default risk, target debt ratio, and firm size is not significantly affective towards the capital structure decision with > 0.05 p-value.

$$\ln \frac{p}{1\text{-}P} = Exp\,(4{,}786 + 11{,}955\ \mathrm{MGT}) = 92{,}28\%$$

$$\ln \frac{p}{1\text{-}P} = Exp\,(4{,}786 - 0{,}001\ \mathrm{MKT}) = 82{,}74\%$$

The probability of companies to have an opportunistic manager who chooses to issue shares is 92.28%, while the chance of using debt is 7.72%. The equation of the second probability shows that when the stock market is bearish, the company would tend to make debt with the chance of 82.74%, and would otherwise issue share with the chance of 17.26%.

Through data tracing, it is shown that sixteen property companies listed in Indonesia Stock Exchange (IDX) chose to issue stock, while the rate of managerial ownership is low at 1,72%. With a higher percentage of stock ownership by the company manager, the decision of capital structure tends to issue stock than to use debt. Manager tends to issue stock when their control over company is not strict. This is because stock issues have a diluted effect on their voting rights. The downside of the decision of adding cash from new stock is the high cost of issuing stock and the further divided ownership of stock by new stockholders. Perhaps managers need to consider between the cost of issuing new stock and the cost of debt which is followed by the default risk.

This is contrary to Ooi's (2000) research that managers prefer making debts rather than stock issuance. When companies choose to add more fund through debt, the probability of managers using his or her company's cash for personal gain is reduced. This will result in a higher pressure on managers to perform better in order to pay the company debt. This is in accordance with the research of Christiawan and Tarigan (2007) which stated that managers do not wish financial difficulties or even bankruptcy on their company when using debt.

Bankruptcy is disadvantageous to them both as a manager and stockholder. This is proven by the low number of property companies in Indonesia that issue bonds (Suryowati, 2016). Acquiring debt from banks is an alternate strategy which managers choose from issuing bonds because property companies' income is dependent on projects still in development. Companies which need to pay bond coupons periodically until the due date increase more financial burden to the general performance of the company. Not to mention, the company incomes are not yet sufficient to pay those coupons and thus affect the whole company.

Reviewed from the property sub-sector, there are four companies which have a portion in managerial stock ownership above average – three of them are focused on housing developments. Building projects and house sales acquire their cash flow from booking fees and down payments. Those payments are often paid gradually in cash and is later continued with housing mortgage. The down payment period is rather extensive and varies depending on the house building process. Therefore managers have a higher chance to use collected cash for their personal gain. In operational activities, such situation can also occur through cooperation with contractors such as manipulating building materials input, regulating a cheaper construction cost, adding construction activities shopping items, compiling a cost sheet without correcting the quantity of unexecuted work (Kundakchyan & Grigoryeva, 2016).

Stock market conditions have a significantly negative impact towards capital structure decision. The outlook on the capital market's side shows that bearish stock market encourages managers to make capital structure decision towards debt. On the contrary, a manager's act to issue stock sends a false signal to investors because it seemed that their companies are lacking in cash (Sedianingtias, 2010). Therefore, even in bearish stock market condition, property companies still choose to use debt as a source of fresh fund so that investors do not give a bad review to the company's performance.

Research from Ooi (2000) states that bearish stock market is indicated by a high IDX composite, it will be used by companies as an opportunity to issue stock.Further, the effect of default risk, target debt ratio, tax burden and firm size is proven not significant for capital structure decisions. Managers as the decision maker of capital structure tend to ignore the level of default risk and target debt ratio owned by the company, as long as the decision is in their favour. This is not in line with the research of Wahome, Memba & Muturi (2015) which states that a higher company's risk means it has a higher rate of debt usage, which in turn causes a higher rate of default payment. On the contrary, Ooi (2000) finds companies with high target debt ratio are inclined to avoid the use of debt to maintain an optimum rate of capital structure.

Widayanti, Triaryati and Abundanti (2016) also express that companies are unwilling to take the risk of over excessive debt to fund their activity. This is done in order to retrench their tax due to interest. Managers have a lot to consider and they try to keep the balance between cost of bankruptcy and tax saving which could be gained. Leverage can increase company value as well as to reduce tax. If companies do not wish to use debt but are profiting well at the same time, they are required to pay a higher tax and will not be benefiting from a tax reduction. This research states that tax burden does not have any effect towards capital structure decision. The amount of tax to be paid by the company is not the only consideration for managers to decide funding. Property tax is more related to the value of the object being sold, and is therefore burdened on the consumer as Value Added Taxation (VAT) and Luxury Goods Tax.

Moreover, managers might make mistakes by ignoring the sum of assets their companies own, which will weaken their performance. Ooi (2000) stated that the bigger size of a company is, the chance to acquire debt for a capital requirement is higher, in which case the company might benefit from the use of debt.

However, this research shows that firm size does not have a significant effect: the number of assets owned by a company does not influence capital structure decision. The existence of outside blockholders does not have any significant effect towards the capital structure decision of property companies as studied by Ooi (2000). The average percentage of ownership of outside blockholders on property companies listed in IDX shows a high rate of 63.15%. Among 107 samples, only 46 represents an outside blockholders percentage that is below the average. It means that the portion of outside blockholders does not affect capital structure decision made by the manager. Outside blockholders' role in monitoring and supervising manager's action does not affect the manager in making decisions, such as an opportunist manager who tries to skip a few preparations from cash flow projection and project profit forecast. They make the wrong decisions in investing company cash flow, therefore negatively impact the future company profit. Managers can even mask a bad performance through profit manipulation, which justifies further that outside blockholders do not affect managers' decision.

This research also proves that free cash flow does not significantly affect the capital structure decision of property companies listed in IDX. Jensen (1986) states that funding through debt is one among the many methods for creditors to monitor company activities and limit management's expenditure. Thus, managers would commit to pay debt and limit cash outflow. As a result, managers can avoid the misuse of free cash flow. Additionally, another possibility is that anagers can use cash for personal gain by sharing dividend, since they also have company shares.

Likewise, the last possibility is for managers to try raising their image by offering megaprojects to the public. Whereas property companies with sizeable free cash flow can use it firstly to pay off debt before investing (Maloney, McCormick, & Mitchell 1993; Stulz 1990).

The high proportion of debt in a company will result in a higher interest ought to be paid. Companies should be able to diminish the risk of bankruptcy by using free cash flow to pay off company debt (Syafi'i, 2011). Fei (2015) also stated that financial scandals by managers through financial management activities such as income smoothing activities are difficult to detect and it consequently impact the amount of free cash flow.

Conclusion

The capital structure decisions of property companies listed on the Indonesia Stock Exchange (IDX) are influenced by managerial opportunism and stock market condition, while the outside blockholders and company characteristics as control variable are not influential. Property companies tend to issue shares in its capital structure decision because the rate of stock ownership by a manager is considerably low. Conflict as a result of managerial ownership will create a gap in management. Big property company may be managed by professionals who might have a small amount of stock in the company. On the contrary, smaller property company may be run by the managers themselves.

Therefore, big property companies have an elevated risk of having opportunistic managers. The implication of this research is for company owners to choose a manager who acts for the good of all parties involved and not for the manager's interest. To better sustain the growth of property companies, it is favourable that those in the position of managers who double as stockholders to not take actions disadvantageous to other stockholders. Stable corporate governance will help managers to act professionally and in turn accomplish the goal to raise company value. Trust relationships are very important in this process.

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