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The Mediating Role of Debt Policy in Ownership Structure on Company Financial Performance

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Abstract

This research investigates the relationship between managerial ownership structure, ownership concentration, and their impact on a company's financial performance, with a particular focus on the mediating role of debt policy. The analysis tool used in this study is SEM (Structural Equation Modeling. The research data sample is non-cyclist consumer goods sector companies listed on the IDX for the 2019-2023 period. The results of the analysis show that managerial ownership does not significantly affect financial performance. Ownership concentration has no significant effect on economic performance. Debt policy has a negative and significant effect on financial performance. From the mediation role test, debt policy does not mediate the impact of managerial ownership on economic performance. Debt policy can mediate the effect of ownership concentration on financial performance. The implication of the research results is that companies with concentrated ownership should consider leveraging debt policy to improve financial performance, as it encourages external supervision and efficient capital use.

Keywords: managerial ownership, ownership concentration, financial performance, debt policy.

1. Introduction

1.1 Introduce the Problem

A good standard of financial performance assesses a company's long-term success and sustainability, serving as a crucial indicator of its overall performance. A substantial body of study in corporate finance examines how a company's financial performance can be enhanced. Nonetheless, no general formula can elucidate the reasons for variations in financial performance among organizations and industries. The determinants of a company's financial performance are

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diverse, encompassing internal policies and external market conditions that impact total financial outcomes (Ross et al., 2009).

Numerous investigations have indicated that ownership structure significantly influences firm performance (Acheson et al., 2016). The composition of shareholder ownership is a critical factor in a company's financial performance, as all companies aim to optimize the wealth of their owners or, in the case of public companies, their shareholders. Managers designated by the company's proprietors serve as agents to oversee its resources to fulfil its objectives. The company's proprietors will oversee each manager's decisions to optimize organizational performance (Jensen & Meckling, 1976).

Two important aspects of ownership structure that are often of concern are ownership concentration and management ownership. Ownership concentration, which reflects the extent to which a particular individual or group owns a company's shares, can significantly influence the company's strategic and operational policies (Claessens, 2013). Concentrated ownership is often associated with tighter control over management, which can increase efficiency and reduce the risk of decision-making not in line with the interests of shareholders (Ting et al., 2017). However, this structure can also trigger conflicts of interest between majority and minority shareholders, especially if the majority shareholder pursues personal gain that can harm the company's overall value (Shleifer & Vishny, 1986). In addition to the ownership concentration strategy, another strategy to reduce agency costs is to increase managerial ownership, namely by providing opportunities for managers to be involved in share ownership to equalize interests with shareholders. Involvement in share ownership: managers tend to act carefully because they share the consequences of their decisions. In addition, with involvement in share ownership, managers are motivated to improve their performance in managing the company. Managerial share ownership is expected to be by the wishes of the principals because managers will be motivated to improve performance and later be able to improve company performance (Aluchna & Kaminski, 2017).

One of the main factors that affect financial performance is the debt policy implemented by the company (Yarram, 2013). Debt policy focuses on decisions regarding the proportion of company funding from debt compared to equity. This policy affects the company's capital structure, cost of capital, and financial risk (Myers, 1977). Effective debt management can help companies maximize company value (Modigliani & Miller, 1958), but if not managed properly, excessive debt can increase the risk of bankruptcy (Vijayakumaran & Vijayakumaran, 2019).

In addition to being influenced by the company's ownership structure, the company's funding policy is also an important factor that determines company performance. Company managers face a dilemma in using funding that can increase company value but also poses a low risk to the company (Myer, 1984). Debt financing policy is the main alternative for companies to finance corporate investment. However, debt has the disadvantage that it increases financial risk and the company's capital cost.

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1.2 Explore Importance of the Problem

Prior research has examined several aspects of ownership structure, loan policy, and individual firm performance, yielding controversial and conflicting findings (Isakov & Weisskopf, 2009; Mazlina & Ahmad, 2011). There is a significant research gap in understanding how debt policy can mediate the relationship between ownership structure and company performance.

This study aims to test the development of direct and indirect influence patterns between managerial ownership, ownership concentration, and debt policy on financial performance. This is a development of models from previous studies, especially research (Russino et al., 2019) and (Berķe-Berga et al., 2017), which is then integrated with the novelty that debt policy is a mediator in the influence between these variables. The novelty in this study is related to the submission of debt policy as a connecting variable on the influence of managerial ownership and ownership concentration on the company's financial performance.

1.3 Describe Relevant Scholarship

a. Agency Theory

Agency Theory is a model that analyzes the relationship between the principal (authorizer) and the agent (authorized recipient). Jensen & Meckling, (1976) explain the agency relationship as a contract in which one or more people (principals) instruct another person (agent) to take action on their behalf and delegate some of the decision-making authority to the agent. Agency relationships in a company arise in several ways (Maury & Pajuste, 2005): (1) the relationship between creditors and shareholders (creditors as principals and shareholders as agents). (2) The relationship between shareholders and managers (shareholders as principals and managers as agents).

The relationship between creditors and shareholders occurs because of the creditor funds used by shareholders to fund company projects under the control of managers. The relationship between shareholders and managers arises due to the separation of ownership and control (Jensen, 1986). In small companies, the owner is the company manager. In large companies, especially those that have gone public, shareholders (owners) do not carry out daily activities but only have shares and voting rights. Meanwhile, a professional manager controls the company's operational and daily activities. Thus, the manager is the company's main decision-maker who has great control over the company's assets (Dutta & Jer, 1999).

b. Free Cash Flow Theory

The Free Cash Flow (FCF) theory was first proposed by Michael Jensen (1986) and has become one of the important concepts in corporate finance. This theory explains that free cash flow is the cash available to a company after meeting all operational needs and profitable investments (Jensen, 1986). Free cash flow is excess funds that do not have to be invested again and is often a concern because, if not managed properly, this cash flow can be misused by management for personal interests or projects that do not generate added value (agency problem) (Fama & Jensen, 1983).

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According to Jensen (1986), Free Cash Flow is a discretionary cash flow owned by the company; this cash flow can be used to pay debts, increase investment, buy treasury shares, or increase liquidity. Free cash flow in a company is the amount of cash flow available to investors, debt providers (creditors), and equity (owners) after the company has met all operational needs and paid for investments in net fixed assets and current assets.

c. Managerial Ownership

Managerial ownership is the ownership of shares by the company's management. Managerial share ownership can align the interests of shareholders with managers because managers directly feel the benefits of the decisions taken, and managers bear the risk if losses arise as a consequence of making the wrong decision (Florackis et al., 2009). According to Jensen (1986), the greater the proportion of management ownership in a company, the more it will be able to unite the interests of managers and shareholders. Managerial ownership allows managers to be involved in shared ownership so that with this involvement, the position of managers is equal to that of shareholders. Managers are treated not merely as external parties who are paid for the interests of the company but are treated as shareholders. The involvement of managers in share ownership will effectively improve manager performance (Wahba, 2014).

d. Ownership Concentration

Ownership concentration refers to the proportion of a company's shares owned by large shareholders or certain groups. These large shareholders usually consist of the company's founders, the founder's family, financial institutions, or groups of investors who significantly influence the company's strategic decision-making (Manso et al., 2014). A high concentration of ownership indicates that power and control over the company are concentrated in only a few parties, which can affect how the company is managed. Major decisions are made (Edmans, 2009).

e. Debt Policy

Debt policy determines how much of the company's funding needs are financed by debt. The use of debt will provide benefits to the company in the form of tax savings. On the other hand, using debt will also increase costs for the company in the form of bankruptcy costs if the company cannot pay off its debts (Donalson, 2000). Bankruptcy costs arise due to the obligation to pay installments and interest on loans from creditors. Payment of installments and interest on debt can cause financial distress because the company's cash flow cannot cover it (Altman & Hotchkiss, 2010).

f. Company Financial Performance

Performance is a picture of the company's achievements, from the efficiency of its operational activities to the recognition of revenue and the attribution of expenses to generate profits each period. Revenue recognition and attribution of expenses ensure that all revenue generated in a period has been recognized and that the expenses recorded are only expenses related to that period (Wang, 2022). Financial performance is an aspect of assessing a company's performance

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in its business activities in terms of financial achievement. Financial performance provides information and an overview of the company's achievements and prospects to external parties regarding the company's financial condition based on the business activities carried out (Paniagua et al., 2018).

Performance measurement is one way to determine whether a company is running its operations according to its goals. Companies use performance measurement to improve their operational activities and make them more effective and efficient. According to Ross et al., (2009), financial performance is the determination of certain measures that can measure the success of an organization or a company in generating profits.

1.4 State Hypotheses and Their Correspondence to Research Design

The variables in this study are managerial ownership, ownership concentration, debt policy, and company financial performance. The conceptual framework model, shown in Figure 1, describes the relationship between the variables to be studied.

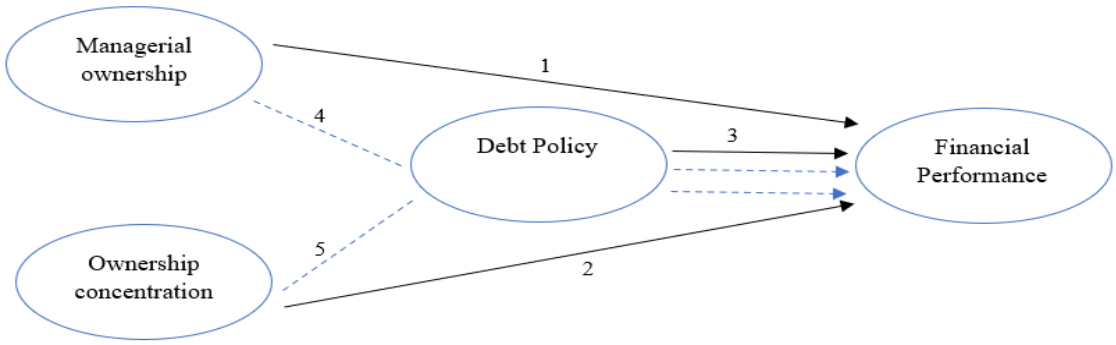

Figure 1. Research Conceptual Framework

a. The Influence of Managerial Ownership on Company Financial Performance.

The purpose of managerial share ownership is to align the interests of managers with shareholders (Jensen & Meckling, 1976). By owning shares in the company, the desires and interests of managers, which are basically different, can be united with the desires and interests of shareholders who are none other than themselves (Jensen, 1986). Through managerial ownership, managers directly feel the benefits of the decisions taken and bear the losses due to the wrong decisions.

When managerial ownership increases, the company management will try to improve the performance of shareholders and themselves, motivate managers to be more responsible in their actions, and minimize agency problems (Mazlina & Ahmad, 2011). The increasing involvement of managers in share ownership will further reduce the motivation to use company funds on projects or investments that are not good so that the subsequent output is to create more optimal company performance (Berķe-Berga et al., 2017).

H_1: Managerial ownership influences the company's financial performance.

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b. The Effect of Ownership Concentration on Company Financial Performance.

Ownership concentration, which refers to the level of share ownership by a small number of major shareholders, is believed to significantly affect a company's financial performance. In conditions where ownership is concentrated, major shareholders tend to have more substantial incentives to monitor and supervise the performance of the company's management. This monitoring can provide operational efficiency and ensure that strategic decisions align with shareholders' interests (Maury & Pajuste, 2005).

Referring to the premise that with dominant shareholders who have significant influence in decision-making, the company will focus more on achieving long-term goals oriented towards increasing the company's value (Boussaada & Hakimi, 2021). Major shareholders also tend to mitigate risks threatening the company's financial stability, creating a more stable and profitable business environment (Luo et al., 2013). Therefore, ownership concentration positively affects the company's financial performance.

H_2: Ownership concentration affects the company's financial performance.

c. The Influence of Debt Policy on Financial Performance.

The use of debt will increase company performance up to a specific leverage limit (optimal). However, after passing the optimal point, leverage will incur more significant bankruptcy costs, which can reduce company performance (Noghondari & Noghondari, 2017). The trade-off theory predicts that there is a positive relationship between debt and company financial performance based on the assumption that reducing debt interest in calculating taxable income will reduce the proportion of tax burden so that the proportion of net income after tax also increases (Vijayakumaran & Vijayakumaran, 2019).

H_3: Debt Policy affects the company's financial performance.

d. The Influence of Managerial Ownership on Company Financial Performance Through Debt Policy.

Agency theory states that creating an alignment of interests between managers and shareholders involves managers owning company shares (managerial ownership), by owning company shares, managers are expected to work in the interests of shareholders, including the managers themselves. This mechanism is often called the convergence-interest hypothesis (Jensen & Meckling, 1976).

One of the important financial decisions directly related to managerial ownership and corporate performance is debt or capital structure policy. Trade-off theory states that debt can benefit from tax deductions due to interest payments (Myer, 1984). The tax deductions received allow companies to utilize more debt. In addition to considering smaller issuance costs compared to stock funding, using debt also allows companies to obtain funds to finance investments without increasing ownership rights over the company (Endang et al., 2020).

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H_4: Debt policy mediates the effect of managerial ownership on corporate performance.

e. The Effect of Ownership Concentration on Financial Performance Through Corporate Debt Policy.

Based on the monitoring premise that the emergence of control rights and supervision by creditors from debt funding, increasing debt can reduce the control capacity of block holders (Faccio et al., 2001). By avoiding reduced control over various policies, stockholders avoid using and adding debt for various company projects and investment needs (Boubaker et al., 2017).

H_5: Debt policy mediates the effect of ownership concentration on a company's financial performance.

2. Method

This study uses the SEM (Structural Equation Modeling) analysis tool, operated through the IBM SPSS AMOS 22 program. The SEM assumption tests include Confirmatory Factor Analysis (CFA), normality tests, outlier evaluations, Multicollinearity and singularity evaluations, and Goodness of Fit Evaluations.

2.1 Identify Subsections

This study has endogenous and exogenous variables. The exogenous variables are managerial ownership and ownership concentration, while the endogenous variables are debt policy and financial performance. Table 1 explains the measurement indicators of each variable.

Table 1. Variables Measurement

No	Variables		Indicators	
1.	Managerial ownership	KM	- Share Ownership by managers/ directors	KSM
			- Average Share Ownership by the Board of Commissioners	RKD
2.	Ownership Concentration	Kons	- Share Ownership by Highest Percentage Owners	KST
			- Share Ownership by Institutions	KSI
			- Share Ownership by Blockholders	KSB
3.	Debt Policy	KH	- Debt to Equity Ratio	DER
			- Debt to Total Aset ratio	DTA
			- Short-term Debt to Current Assets Ratio	SDCA
5.	Financial Performance	KK	- Net Profit Margin	NPM
			- Return on Equity	ROE
			- Return on Asset	ROA

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2.2 Sampling Procedures

The data used in this study are historical secondary data obtained from the Publication Financial Reports published by each company on www.idx.co.id. The population used in this study is non-cyclist consumer goods sector companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period. The sample used meets the following criteria: 1) Listed on the Indonesia Stock Exchange and never delisted during the research period (2019 - 2023); 2) The company's financial statements are available in full at www.idx.co.id. Based on the criteria set, 63 companies meet the requirements as research samples.

2.3 Research Design

The conceptual framework of the study is structured based on the relationship between variables and overall indicators studied in the study. The figure 2 explains the relationship between these variables which are then used to test the 5 research hypotheses.

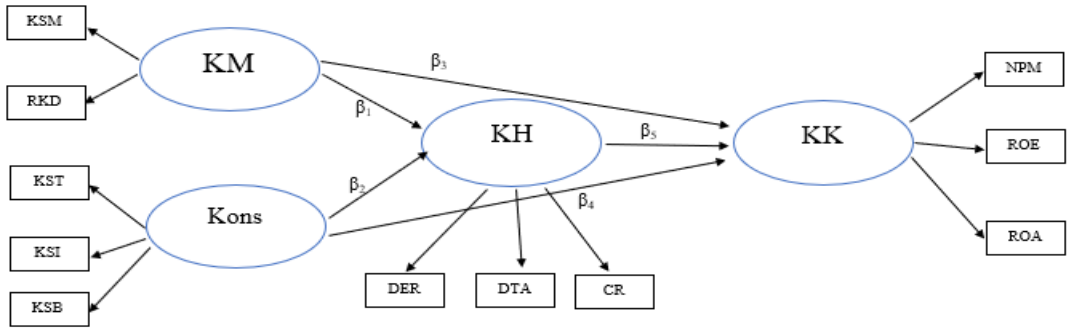

Figure 2. Research Full Model

3. Results

3.1 Statistics and Data Analysis

Analysis of data and the reporting of the results of those analyses are fundamental aspects of the conduct of research. Accurate, unbiased, complete, and insightful reporting of the analytic treatment of data (be it quantitative or qualitative) must be a component of all research reports. Researchers in the field of psychology use numerous approaches to the analysis of data, and no one approach is uniformly preferred as long as the method is appropriate to the research questions being asked and the nature of the data collected. The methods used must support their analytic burdens, including robustness to violations of the assumptions that underlie them, and they must provide clear, unequivocal insights into the data.

Descriptive statistical analysis in this study is used to analyze quantitative data processed by describing each research variable data, managerial ownership, ownership concentration, debt policy, corporate financial performance. Descriptive statistics in this study use several measures including minimum, maximum, average (mean), standard deviation.

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Table 2. Descriptive Statistical Analysis Results

Variables	Indicators	N	Minimum	Maximum	Mean	Std. Deviation
Managerial ownership	KSM	315	0.01	64.47	8.6363	14.59682
	RKD	315	0.00	31.93	2.2880	5.36680
Ownership concentration	KST	315	7.02	92.47	52.6042	20.99543
	KSI	315	2.33	92.50	67.5855	19.74889
	KSB	315	7.02	95.50	68.0249	20.26885
Debt Policy	DER	315	10.28	920.00	137.9609	138.61869
	DTA	315	9.40	231.00	51.8043	28.19083
	SDCR	315	7.51	1663.00	94.8055	149.28642
Financial Performances	NPM	315	-150.39	93.91	1.4176	18.91198
	ROE	315	-117.58	217.00	6.3224	32.71789
	ROA	315	-53.08	94.36	4.4278	11.79213

Source: Processed from the author (2025)

3.2 Confirmatory Factor Analysis (CFA)

Convergent validity can be seen from the value of the variable indicator loading factor. The first requirement must be met: the loading factor must be significant. Because a significant loading factor may still have a low value, the standardized loading estimate must exceed the minimum required value of 0.40 (Hair et al., 2010).

Tabel 3. Loading Factor (λ) of Latent Variable Measurement Model

Direction			*loading factor* (λ)	Estimate	S.E.	C.R.	P-value	Decision
KSM	<---	KM	0,838	1,000				
RKD	<---	KM	1,038	0,461	0,129	3,584	0,000	Valid
KSB	<---	Kons	0,668	1,000				
KSI	<---	Kons	0,944	1,334	0,289	4,619	0,000	Valid
KST	<---	Kons	0,616	0,939	0,222	4,226	0,000	Valid
SDCA	<---	KH	1,019	1,000				
DTA	<---	KH	0,621	0,115	0,034	3,395	0,000	Valid
DER	<---	KH	0,023	0,170	0,107	2,655	0,012	Valid
NPM	<---	KK	0,653	1,000				
ROE	<---	KK	0,196	1,274	0,243	5,247	0,000	Valid
ROA	<---	KK	0,985	0,833	0,143	5,821	0,000	Valid

Source: Processed from the author (2025)

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Table 2 shows that all indicator variables have CR values greater than two and are p-values less than 0.05. The CR values of the variables KSM, KSB, SDCA, and NPM are not in Table 2 because these indicator variables are constrained. According to the provisions of the AMOS application program, at least one of the indicator variables, which are the dimensions of the latent variables, must be constrained. Thus, it can be stated that all indicator variables, which are the dimensions of the latent variables KM, Kons, KH, KK, and KD, contribute significantly to the formation of latent variables.

Reliability analysis refers to the required variance extracted value construct must be equal to or greater than 0.5. At the same time, the required construct reliability value must be equal to or greater than 0.70. The Variance Extracted (VE) value ≥ 0.50 indicates that a construct has good reliability (Hair et al., 2010).

Tabel 4. Construct Reliability Calculation

Variables	$(\Sigma SL)^2$	$\Sigma\varepsilon_j$	$(\Sigma SL)^2 + \Sigma\varepsilon_j$	**Construct Reliability**
KM	3.519	0.129	3.648	0.965
Kons	5.054	0.511	5.565	0.908
KH	2.766	0.141	2.907	0.951
KK	3.364	1.107	4.471	0.752

Source: Processed from the author (2025)

Table 3 shows that all latent variable constructs have a variance extracted value of more than 0.5 and construct reliability above 0.70, so it is stated that all constructs have a reliability value that is suitable for further testing.

3.3 Normality Test

The univariate normality test can be seen from the critical (c.r) skewness value, while the multivariate normality test can be seen from the critical (c.r) kurtosis value. The normal distribution is fulfilled if the c.r. Value is in the range of ± 1.96 at a significance level of 0.05 for both univariate and multivariate (Hair et al., 2010). The results of the data normality test are presented in Table 4.

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Tabel 5. Skewness and Kurtosis of Variables

Variables	min	max	skew	c.r.	kurtosis	c.r.
ROA	-150,390	93,910	-2,781	-2,150	1,841	2,258
ROE	-117,580	217,000	1,094	1,930	1,413	1,349
NPM	-53,080	94,360	1,562	1,319	1,816	2,676
DER	10,280	920,000	2,516	1,229	1,216	2,767
DTA	9,400	231,000	2,106	2,262	0,283	2,633
SDCA	7,510	1663,000	2,748	1,893	2,767	1,413
KST	7,020	92,500	,069	,502	-,704	-2,552
KSI	2,330	92,500	-1,100	-1,971	1,077	2,903
KSB	7,020	95,500	-1,036	-1,508	0,740	2,681
RKD	0,000	31,930	3,706	2,749	1,972	2,242
KSM	0,010	64,470	2,239	1,220	0,864	1,621
Multivariate					21,078	1,918

Source: Processed from the author (2025)

Based on Table 4, it can be said that the data is normally distributed (normality assumption is met) because the critical value (critical ratio) is in the range of $-1.96 \leq c.r \leq 1.96$. The multivariate test also shows a c.r. Value of 1.92, where this figure is categorized as multivariate customarily distributed data. Thus, the data meets the requirements for the normality test.

3.5 Multicollinearity and Singularity Test

Indications of multicollinearity and singularity can be seen through the value of the covariance matrix determinant, which is very small or close to zero. Suppose the value of the covariance matrix determinant is greater than 0. In that case, the data is free from multicollinearity problems so that the data is suitable for use in the analysis (Hair et al., 2010). The results of calculating the value of the sample covariance matrix determinant from the SEM Amos output are presented in Table 5.

Tabel 6. Sample Covariance Matrix

	DPS	ROA	ROE	NPM	DER	DTA	CR	KST	KSI	KSB	RKD	KSM
DPS	6155,51	2,416	3,676	2,888	-0,479	-0,781	-6,653	232,712	330,637	249,453	-61,416	-132,60
ROA	2,416	0,025	0,037	0,029	-0,022	-0,023	-0,029	0,211	0,300	0,226	-0,052	-0,112
ROE	3,676	0,037	1,493	0,044	-4,333	-0,005	-0,043	0,321	0,457	0,344	-0,079	-0,171
NPM	2,888	0,029	0,044	0,083	-0,012	-0,014	-0,092	0,252	0,359	0,271	-0,062	-0,134
DER	-0,479	-0,02	-4,333	-0,012	21,27	0,156	0,162	-0,359	4,237	-10,205	0,013	0,029
DTA	-0,781	-0,02	-0,005	-0,014	0,156	0,079	0,264	-0,586	-0,833	-0,628	0,022	0,047
CR	-6,653	-0,02	-0,043	-0,092	0,162	0,264	2,205	-4,992	-7,093	-5,351	0,186	0,402
KST	232,712	0,211	0,321	0,252	-0,359	-0,586	-4,992	436,656	244,517	176,410	-36,041	-108,71
KSI	330,637	0,300	0,457	0,359	4,237	-0,833	-7,093	244,517	375,202	250,643	-51,207	-100,78
KSB	249,453	0,226	0,344	0,271	-10,20	-0,628	-5,351	176,410	250,643	420,768	-14,503	-49,058
RKD	-61,416	-0,05	-0,079	-0,062	0,013	0,022	0,186	-36,041	-51,207	-14,503	28,914	67,470
KSM	-132,60	-0,11	-0,171	-0,134	0,029	0,047	0,402	-108,71	-100,78	-49,058	67,470	208,103

Source: Processed from the author (2025)

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Table 5 shows that all sample covariance matrices in this study have no zero value. Thus, it can be concluded that there are no symptoms of multicollinearity and singularity.

3.6 Goodness of FitTest

The structural equation model will produce parameter numbers that will be compared with the cut-off value of goodness of fit (Hair et al., 2010).

Tabel 7. Goodness of Fit Model Evaluation Results

No	Goodness of Fit Index	*Cut of Value*	Result	Fitness
1	*Chi-Square* – X^2	Kecil	27.238	*Marjinal Fit*
2	*Significant probability*	≥ 0,05	0.075	*Good Fit*
3	CMIN/DF	≤ 2,00	1,513	*Good Fit*
4	RMSEA	≤ 0,08	0,040	*Good Fit*
5	GFI	≥ 0,90	0,985	*Good Fit*
6	AGFI	≥ 0,95	0,943	*Good Fit*
7	TLI	≥ 0,95	0,984	*Good Fit*
8	CFI	≥ 0,95	0,995	*Good Fit*

Source: Processed from the author (2025)

Table 6 The Goodness of Fit Indices test results show that the significant values of probability, CMIN/DF, RMSEA, TLI, CFI, AGFI, and GFI obtained good fit results. Only the Chi-Square value obtained marginal fit results. So, the model is suitable for use in further analysis

3.7 Hypothesis Test Result

Hypothesis testing is conducted to determine the direct effect used to test whether there is an effect between variables. The testing criteria state that the hypothesis is accepted if the path coefficient has a p-value ≤ level of significance (α = 5%) (Hair et al., 2021). The results of the research hypothesis testing are shown in Table 7.

Table 8. Hypothesis Testing Results

Path Direction	*Path coefficient*	Estimate	S.E.	C.R.	P-Value
KM → KK	-0,032	0,000	0,001	-0,490	0,624
Kons → KK	0,018	0,000	0,001	0,202	0,840
KH → KK	-0,105	-0,033	0,030	-2,278	0,009
KM →KH →KK	1,613	-	0,009	-	0,106
Kons →KH →KK	-3,487	-	0,009	-	0,000

Source: Processed from the author (2025)

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Based on Table 7, each research hypothesis test result can be described as follows:

1) The coefficient of the influence of managerial ownership (KM) on financial performance (KK) is negative but not significant because the C.R. value of -0.490 is smaller than 1.96, and the p-value is 0.624 (greater than 0.05). These results indicate that the hypothesis that managerial ownership affects financial performance is rejected.
2) The path coefficient of Ownership Concentration (Kons) on Financial Performance (KK) is positive but not significant because the C.R. value of -0.181 is less than 1.96, and the p-value is 0.856 (greater than 0.05). So, the hypothesis that ownership concentration affects the company's financial performance is rejected.
3) The path coefficient of the influence of debt policy (KH) on financial performance (KK) is positive and significant because the C.R. value of -0.181 is less than 1.96, and the p-value is 0.856 (greater than 0.05). 2.049 is more significant than 1.96, and the p-value is 0.040 (less than 0.05). It concluded that the hypothesis that debt policy affects financial performance is accepted.
4) The Sobel test of the effect of managerial ownership on financial performance mediated by debt policy gets a p-value of 0.107, more significant than 0.05, which means that debt policy does not mediate the effect of managerial ownership on financial performance.
5) The calculation results with the Sobel-test of the effect of ownership concentration on financial performance mediated by debt policy get a p-value of 0.000 less than 0.05, meaning that debt policy mediates the effect of ownership concentration on financial performance.

4. Discussion

The hypothesis test results of managerial ownership's influence on financial performance obtained a path coefficient of -0.032 with a p-value of 0.624. A p-value greater than 0.05 indicates that managerial ownership has an insignificant influence on financial performance. These results may be caused by the low level of managerial share ownership in the companies studied. The average portion of share ownership by directors is only 9.23%, while the average ownership by the board of commissioners is even lower, at 2.5%. This low level of ownership is not enough to create financial incentives for management to align their interests with other shareholders (Jensen & Meckling, 1976). With small share ownership, the potential benefits of improving company performance for managers are relatively limited, so managers are less motivated to maximize company performance through optimal strategic decisions. The results of the data analysis found that ownership concentration did not have a significant effect on financial performance. Although there is a high concentration of ownership, the control of the majority shareholder is not enough to increase the efficiency or profitability of the company. One of the reasons for the insignificant influence of ownership concentration on financial performance is that in companies with concentrated ownership, majority shareholders tend to focus on controlling the company to increase the company's value in the long term rather than on improving short-term operational performance which is often measured by conventional performance measures such as NPM, ROE and ROA (Russino et al., 2019). Hypothesis testing found that debt does not mediate the influence of managerial ownership on financial performance. The relatively aggressive capital structure in the sample companies is reflected in the average Equity Ratio (DER) of 194%, Total Asset Ratio (DTA) of 51%, and the ratio of

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short-term debt to current assets of 94%. This high level of debt can reflect tremendous financial pressure, which requires careful management to ensure the sustainability of the company's operations. However, the low level of managerial ownership, where the board of directors' share ownership is 9.23%, and the board of commissioners' share ownership is 2.5%, causes their influence in strategic decision-making related to debt to be limited. This condition may indicate that management does not have sufficient financial incentives to use debt policy to increase efficiency and firm value. Thus, the relationship between managerial ownership, debt policy, and financial performance is insignificant in this study.

Hypothesis testing also states that debt policy mediates the effect of managerial ownership on the company's financial performance, which is stated to be accepted. The high concentration of ownership with an average KST indicator of 52.6%, an average KSI of 67.58%, and an average KSB of 68.1% indicate that most of the company's shares are controlled by a small group of shareholders, which has been shown to have a significant effect on the company's debt policy.
Debt can reduce conflict between management and shareholders due to increased interest payment obligations and external supervision from creditors (Myer, 1984). Increasing debt forces management to be more efficient in utilizing financial resources (Costa Cabral et al., 2018). The result aligns with the trade-off theory, which states that companies try to achieve an optimal capital structure by considering the tax benefits of debt and the risk of bankruptcy.

5. Discussion

This study analyzes the influence of managerial ownership structure and ownership concentration on the company's financial performance mediated by debt policy. Debt Policy Does Not Mediate the Effect of Managerial Ownership on Financial Performance; this means that debt policy does not mediate between managerial ownership and financial performance. In companies with managerial ownership, management tends to have direct incentives to improve company performance, so debt policy is not needed as an additional control instrument to motivate managerial efficiency.

Debt Policy Mediates the Effect of Ownership Concentration on Financial Performance; this means that in companies with concentrated ownership, debt policy plays an important role in strengthening the influence of majority shareholders on the company's financial performance. Using debt in companies with majority shareholders is a control tool to improve managerial efficiency and discipline, ensuring financial decisions align with shareholders' primary interests.
The analysis found that debt policy mediated the effect of ownership concentration on financial performance, indicating that companies with concentrated ownership structures could utilize debt as a control instrument to improve performance. Management of companies with large shareholders should consider using debt policy to ensure external supervision through debt payment obligations. Debt funding can encourage efficiency in the use of capital and reduce the potential for conflict between management and major shareholders because large shareholders can monitor the management of company funds more closely. Thus, companies with majority shareholders must formulate a balanced debt policy to achieve optimal financial performance

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Limitation

The study's shortcomings are to the low R-squared value of 0.583, indicating a modest correlation. Therefore, the researcher recommends that subsequent investigators take into account external variables, including macroeconomic conditions, government policies, or industry dynamics, that may influence the relationship between ownership structure, debt policy, and financial performance. The impact of these external conditions can offer further understanding of how organizations react to financial policies under varying economic circumstances, so enriching the context for research findings.

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