SUSTAINABILITY AS A STRATEGIC BUSINESS ORIENTATION IN GLOBAL ECONOMY RECOVERY PHASE

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SUSTAINABILITY AS A STRATEGIC BUSINESS ORIENTATION IN GLOBAL ECONOMY RECOVERY PHASE

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## CONTENTS

**FOREWORD**

iii

**CONTENTS**

v

**HUMAN RESOURCES**

<table>
<thead>
<tr>
<th></th>
<th>Title</th>
<th>Authors</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>DESIGN OF INDUSTRIAL RELATIONS AND WAGE SYSTEMS BASED ON HUMAN RESOURCE MANAGEMENT PERSPECTIVE</td>
<td>Agung Widhi Kurniawan, Zarah Puspitaningtyas</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>ANALYSIS ON PERSONALITY AS MODERATING VARIABLE BETWEEN INFLUENCE OF ORGANIZATIONAL CITIZENSHIP BEHAVIOR AND PERFORMANCE; AND MEDIATION BETWEEN WORK ENVIRONMENT AND PERFORMANCE (STUDY ON EMPLOYEES OF PUBLIC SERVICE INSTITUTION)</td>
<td>Bambang Suko Priyono, Euis Soliha, Noviana Dewi</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>THE IMPROVEMENT OF LECTURERS' PERFORMANCE BASED ON SOCIAL CAPITAL</td>
<td>H.M. Fauzan</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>ORGANIZATIONAL CITIZENSHIP BEHAVIOR (OCB) AS A STRATEGY TO WIN THE COMPETITION</td>
<td>Hamsani</td>
<td>6</td>
</tr>
<tr>
<td>5</td>
<td>PROFESSIONAL COMMITMENT OF ACCOUNTANTS AND THE COMMITMENT OF PUBLIC ACCOUNTING FIRMS ON AUDITOR's JOB SATISFACTION</td>
<td>Mathius Tandiontong</td>
<td>7</td>
</tr>
</tbody>
</table>

**ISBN:** 978-979-99365-9-2
6. EFFECT OF BIOGRAPHICAL CHARACTERISTICS AND CULTURAL DIVERSITY ON PERFORMANCE  
(CASE STUDY: CIVIL SERVANTS IN THE GOVERNMENT OF LUBUK LINGGAU) 
Maulana

7. A CLOSER LOOK ON THE MASCULINITY/FEMININITY DIMENSION OF THE JAVANESE AND CHINESE INDONESIAN FEMALE MANAGERS 
Mirwan Surya Perdhana

8. THE INFLUENCE OF LEADERSHIP STYLE AND WORK SATISFACTION TOWARDS PERFORMANCE OF EMPLOYEE 
Nenah Sunarsih, Helmiaatin

9. SERVICE CAPABILITIES OF EMPLOYEE VILLAGE DISTRICTS TO PEOPLE SATISFACTION IN SOUTH TANGERANG 
Soekiyono

10. INTUITION BASED ON RELIGION FRAMEWORK AND ITS ROLE IN SMALL-MEDIUM ENTERPRISES (SMES) MANAGERIAL DECISION MAKING: (A CASE STUDY OF PEKALONGAN BATIK INDUSTRY-INDONESIA) 
Susminingsih

11. THE DESIGN OF DECISION SUPPORT SYSTEM FOR THE ASSESSMENT OF THE PERFORMANCE OF LECTURERS 
Titik Mildawati

12. THE EFFECT OF TRANSFORMATIONAL LEADERSHIP ON PERFORMANCE BY USING MOTIVATION WITH JOB CHARACTERISTICSS AS MODERATION ROLE 
Tristiana Rijanti, Kis Indriyaningrum, Anik Kristiana
13. POSITIVE EMPLOYER BRANDING
A STUDY CASE AT NURUL HAYAT, SURABAYA
H. Johny Rusdiyanto, Elsyi Tandelilin

14. COLLABORATION ON SMEs IN AN INDUSTRY CLUSTER: APPLICATIONS OF COMPETITIVE STRATEGIES FOR INCREASING CAPACITY IN THE GLOBAL ERA
Noviatiy Kresna Darmasetiawan

15. ON THE MODIFICATION OF LAFFERTY’S 1973 “LIFE STYLE INVENTORY” THAT APPLY TO SPECIFIC CONTEXT OF PUBLIC SERVICES IN THE GOVERNMENT OFFICES OF EAST JAVA PROVINCE, INDONESIA 2014: ASSURING BUSINESS SUSTAINABILITY THROUGH APPLICATION OF PSYCHOMETRIC MEASUREMENT FOR SELECTION OF EMPLOYEES WHO HAVE HIGH PERFORMANCE AND SUPERIOR PROFILE
T. Soemarman, J. L. Eko Nugroho

FINANCE & ACCOUNTING

16. FINDING COMPANY WITH DURABLE COMPETITIVE ADVANTAGE THROUGH INTERPRET INCOME STATEMENT (A CASE STUDY OF GO PUBLIC POULTRY FEED SCOMPANIES IN INDONESIA)
Cliff Kohardinata

17. FUNDAMENTAL FACTORS OF BOND RATING REGISTERED IN INDONESIA BOND MARKET DIRECTORY 2008-2012
Felix, Agus Zainul Arifin

18. ANALYSIS OF CAPITAL ASSET PRICING MODEL (CAPM) AND SHARIA COMPLIANT ASSET PRICING MODEL (SCAPM) CASE STUDY ON JAKARTA ISLAMIC INDEX
Kunto Ardianto, Sutrisno

19. THE INFLUENCE LEADERSHIP, ENVIRONMENT AND LOCATION FOR COMPENSATION AND JOB SATISFACTION IN PT. MATAHARI DEPARTMENT STORE, TBK.
Lia Amalia, Peggy Bintang Nauli

20. OPAQUE FINANCIAL REPORTS AND STOCK PRICE CRASH RISK IN INDONESIA
Lukas Purwoto, Eduardus Tandelilin

21. ANALYSIS OF FACTORS AFFECTING FINANCIAL PERFORMANCE IN MAINTAINING EXISTENCE OF SMALL AND MEDIUM COMPANIES
M. Sienly Veronica

22. THE EFFECT OF RETURN ON INVESTMENT (ROI) AND EARNINGS PER SHARE (EPS) SHARE PRICE PT. ASURANSI DAYIN MITRA, TBK
Nina Nurhasanah, HM. Hasbi Zaidi

23. VALUE VERSUS GLAMOUR INVESTING IN INDONESIA STOCK EXCHANGE
Novan Reza Pahlevi

24. FACTORS THAT AFFECT PROFITABILITY IN TERMS OF COMPLIANCE EMPIRICAL STUDIES IN BANKING COMPANY THAT LISTED IN IDX ON 2009-2013
Nur Aini, Yeye Susilowati

25. EFFORTS TO IMPROVE COMPANY’S PROFITABILITY
Rosemarie Sutjiati Njotoprajitno

viii
26. PREDICTING THE FUTURE STOCK RETURN AND ITS PERSISTENCE USING E-INFORMATION IN INDONESIA STOCK EXCHANGE
Sawidji Widoatmodjo

27. EFFECT OF FUNDING AND RISK DECISION ON FINANCING DECISION EMPIRICAL STUDY ON ISLAMIC BANKING IN INDONESIA
Sutrisno

28. THE IMPACTS OF TRUST, RISK AND TECHNOLOGY ACCEPTANCE MODELS ON CONSUMERS’ DECISION WITH CONSUMERS’ INTEREST AS INTERVENING VARIABLE
Sri Ismulyaty, Wiwin Siswantini

29. THE EFFECT OF LOAN DEPOSIT, CAPITAL ADEQUACY, CREDIT RISK AND LIQUIDITY TO BANKS PERFORMANCE EMPIRICAL STUDIES IN BANKING COMPANY THAT LISTED IN IDX ON 2010-2012
Yeye Susilowati, Nur Aini, Ida Nurhayati, Listiyani

30. THE ROLE OF CULTURE DIMENSION IN MANAGEMENT CONTROL SYSTEM TO ENHANCE EMPLOYEE’S MOTIVATION
Alex Chandra, Liliana Inggrit Wijaya, Imanuel Goestaman

31. STOCK MARKET INTEGRATION BETWEEN MALAYSIA AND INDONESIA
Christopher Tongku, Putu Anom Mahadwartha

32. EMPIRICAL EVIDENCE OF PRIVATE DEBTS IN INDONESIA
Erick Sugito Suharso, Deddy Marciano, Endang Ernawati

33. WORKING CAPITAL MANAGEMENT AND PROFITABILITY: A STUDY ON CONSUMER

GOODS INDUSTRY
Dita Yohana Putri Abrianto, Werner Ria Murhadi, Arif Herlambang

34. DAY OF THE WEEK EFFECT: THE CASE OF MEXICO, INDONESIA AND TURKEY
Werner R. Murhadi

OPERATION MANAGEMENT

35. INNOVATIVENESS SURVEY ON MANUFACTURING COMPANIES IN TASIKMALAYA CITY
Edy Suroso, Ina Primiana

36. DISCOVERING THE RELIGIOUS CONTRIBUTION IN HOSPITALITY ORGANIZATION
(BUSINESS CULTURE EXPERIENCE FROM PEKALONGAN BATIK VILLAGE-INDONESIA)
Imam Kanafi, Ade Dede Rohayana, Susminingsih

37. COMBINING ABC-FUZZY CLASSIFICATION MODEL FOR DRUGS INVENTORY PLANNING IN A PHARMACUTICAL UNIT OF A PUBLIC HEALTH CENTER (PUSKESMAS) DJOUMBANG EAST JAVA INDONESIA
Indrianawati Usman, Mulyani

38. ANALYSIS OF CURRENT PERFORMANCE MANAGEMENT PRACTICES OF STATE OWN ENERGY COMPANY IN INDONESIA CASE STUDY PT XYZ
Muhamad Tresnadi Hikmat

39. MAPPING THE SUPPLY CHAIN OF SHEEP MEAT DOMBA PADJADJARAN
Muhamad Dzikron, Ina Primiana
40. PERCEPTION OF FOREIGN TOURISTS TOWARDS ORGANIC FOODS IN TOURISM REGION UBUD, GIANYAR - BALI, INDONESIA
Ni Luh Suastuti, Lidjah Magdalena Massenga 55

41. QUALITY SERVICES OF UNIVERSITY BASED ON STUDENT PERSPECTIVE
Ratna Widiastuti 57

42. THE EFFECT OF TECHNOLOGY Readiness ON TECHNOLOGY ACCEPTANCE IN USING SERVICES DELIVERY OF ACADEMIC INFORMATION SYSTEM
Rorim Panday 58

43. IMPLEMENTATION OF QUALITY FUNCTION DEPLOYMENT (QFD) ON LEARNING PROCESS IN UNIVERSITY X, SURABAYA
Alvin Chrixander Fernaldy, Siti Rahayu, Juliani Dyah T. 59

44. THE IMPACT OF SERVICE QUALITY AND FOOD QUALITY: THE MODERATING ROLE OF ATMOSPHERICS OF KOREAN RESTAURANT ‘MYOUNG GA’ IN SURABAYA
Evina Kurniawan, Fitri Novika Widjaja, Andhy Setyawan 60

45. THE EFFECT OF KPOP PRODUCT ON IMAGE CHANGE AND TRAVEL INTENTION OF INDONESIA’S RESIDENTS ON SOUTH KOREA AS TOURISM DESTINATION
Happy Lia Sanjaya, Fitri Novika Widjaja, Dudi Anandya 61

46. SUSTAINABILITY SUPPLY CHAIN MANAGEMENT ON MOBILE PHONE FEATURES ACCORDING TO CONSUMER PREFERENCES IN SURABAYA
Janice Hendrianto, A. Budhiman Setyawan, Prita Ayu Kusumawardhany 62
47. THE MOTIVES TO JOIN THE SURABAYA COSPLAY COMMUNITY
   Juliani Dyah Trisnawati

48. THE IMPACT OF WATCHING REALITY SHOW MY TRIP MY ADVENTURE TO DESTINATION IMAGE, DESTINATION KNOWLEDGE, PEOPLE'S ATTITUDE AND TRAVEL INTENTION TO MAKASAR
   Regina Juwana, Fitri Novika Wijdaja, Dudi Anandya

49. EFFECT OF MICE DESTINATION ATTRIBUTES ON FORMING BALI TOURISTIC IMAGE
   Threslia Regina Martha Leuw, Fitri Novika Wijdaja, Erna Andajani

50. EFFECT ANALYSIS OF SUPPLY CHAIN MANAGEMENT FOR COMPETITIVE ADVANTAGE AND ORGANIZATIONAL PERFORMANCE IN EAST JAVA MANUFACTURING COMPANY
   Yongky Kristianto Pramana, Stefanus Budy Wijdaja, Prita Ayu Kusumawardhany

MARKETING

51. AN INVESTIGATION CUSTOMER LOYALTY ON INDONESIAN AIRLINES COMPANY
   Anas Hidayat, Wulan Yunita Istianila Dewi

52. THE IMPACT OF INSTITUTION IMAGE, STUDENT SATISFACTION AND WORD OF MOUTH
   Andy Mulyana, Devi Ayuni

53. INTEGRATED MARKETING MANAGEMENT STRATEGY FOR PHARMACEUTICAL
PRODUCTS AND REVIEW FROM BUSINESS ETHICS PERSPECTIVE
Annisa Vera Carolina Kristanto 71

54. PRODUCT QUALITY AND PRICE PERCEPTION BUYING DECISION AGAINST SALONPAS PAIN RELIEF PATCH IN HYPERMART DAAN MOGOT WEST JAKARTA
Ari Anggarani Winadi Prasetyoning Tyas, Desy Wulandari 72

55. THE INFLUENCE OF PEOPLE SATISFACTION ON SERVICES ORGANIZATION PUBLIC PERFORMANCE VILLAGE DISTRICTS SOUTH OF TANGERANG
Deni Surapto 73

56. DETERMINANTS INTERRELATION OF CUSTOMER LOYALTY SIMPATI PREPAID CARDS USERS
Devi Ayuni, Andy Mulyana 75

57. THE EFFECT OF CONSUMER ATTRIBUTES, BRAND AWARENESS ATTRIBUTES AND BRAND IMAGE ATTRIBUTES ON BRAND EQUITY AND DECISION TO CHOOSE EDUCATIONAL SERVICES (CASE STUDY AT UNIVERSITIES IN PEKANBARU CITY)
Gatot Wijayanto 77

58. THE START UP BUSINESS PROCESS WITH THE USE OF BIRD IN HAND AND AFFORDABLE LOSS PRINCIPLE
Gek Sintha 78

59. PERCEPTIONS AND USAGE BEHAVIOR OF THE NATION-WIDE COMMUNICATION AND DATA MANAGEMENT SYSTEM: A PHENOMENOLOGICAL STUDY
Grace T. Pontoh, Darwis Said, M. Ishak Amsari, M. Achyar Ibrahim 79
60. CUSTOMER DECISION MAKING STYLE, BASED ON LOCAL CULTURE
   Kasnaeny K

61. ROLE OF INNOVATION CAPABILITY IN INCREASING SHAREHOLDER VALUE (SALES GROWTH AS INTERVENING VARIABLE)
   Masmira Kurniawati

62. STRATEGY TO IMPROVE BRAND AWARENESS (A CASE STUDY OF EMPRESS BOX COMPANY)
   Monica Francesca Liando, Christina Yanita Setyawati

63. THE INFLUENCE OF PREACHER ENDORSER TOWARD PURCHASE INTENTION
   Muhammad Ryanhzmi, Muchsin Muthohar

64. THE INFLUENCE OF STRATEGIC ADVERTISING AND STORE ATMOSPHERE ON CUSTOMER BUYING INTERESTS (CASE STUDY IN GIANT SUPERMARKET URIPSUMOHARJO STREET YOGYAKARTA)
   Murwanto Sigit

65. ANALYSIS OF EFFECT OF IMAGE AND QUALITY SERVICE ON CUSTOMER COMMITMENT WITH TRUST MEDIATION (A STUDY ON AT PUSKESMAS IN-PATIENTS, JAKENAN, REGENCY OF PATI)
   R. A. Marlienn, Alimuddin R R, Ali Mu.slilin

66. SURABAYA'S UNIVERSITIES STUDENTS' SELF DEVELOPMENT AFTER WATCHING KOREAN DRAMA
   Rizky Hanna Ekaputri, Tias A. Indarwati, Nadia Asandimitra

67. FACTORS INFLUENCING CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE: EVIDENCE IN INDONESIA
   Selina Gunawan, Lina
68. IDENTIFYING INTERESTING THEMES REGARDING COUNTRY OF ORIGIN EFFECT: A PRELIMINARY STUDY
Sulhaini, Junaidi Sagir

69. HAS THE IMPLEMENTATION OF GREEN MARKETING BEEN EFFECTIVELY WORKED IN INDONESIA?
Wendra Hartono

70. WORK MOTIVATION AND SERVICE QUALITY OF STATE CIVIL APPARATUS AS ANTECEDENT OF COMMUNITY SATISFACTION AT THE PUBLIC SERVICES IN THE SUB-DISTRICT OF SOUTH TANGERANG CITY
Wiwin Siswantini, Tamjuddin, Devi Ayuni, Andy Mulyana

71. EFFECT OF WEBSITE DESIGN QUALITY ON REPURCHASE INTENTION OF ONLINE CUSTOMER, WITH MEDIATOR VARIABLE OF SATISFACTION AND TRUST
Zulayka Hamami Putri, Albari

72. SERVICE QUALITY COMPARISON BETWEEN BLUE BIRD TAXI AND ORENZ TAXI BASED ON CONSUMER’S PERCEPTION IN SURABAYA
Alan Darmasaputra Siat, Dudi Anandya, Christina Rahardja Honantha

73. INFLUENCES OF CONSUMER ATTITUDE TOWARD ONLINE BRAND COMMUNITY ON REVISIT INTENTION AND BRAND TRUST IN MANCHESTER UNITED ONLINE COMMUNITY ON FACEBOOK THROUGH MODERATION TYPES OF COMMUNITY: MOC vs COC
Andrew Safan, Christina Rahardja Honantha, Andhy Setyawan

74. UTILITARIAN AND HEDONIC MOTIVATORS EFFECT OF SHOPPERS’ DECISION TO
75. SURVIVING CONFLICT: A CASE STUDY OF TOURISM INDUSTRY IN MALUKU
Charly Hongdiyanto

76. A CONCEPTUAL MODEL OF INCORPORATING SUSTAINABILITY INTO INNOVATION AND ITS EFFECT ON BUSINESS PERFORMANCE
Esti Dwi Rinawiyanti

77. CORPORATE SOCIAL RESPONSIBILITY AND PUBLIC RELATION (A LITERATURE REVIEW)
Helmiatin

78. RETAIL STRATEGY FOR TRADITIONAL MARKET IN SURABAYA CASE STUDY: PASAR KAPAS KRAMPUNG
Indri Hapsari, Markus Hartono, Andrianto Gunawan

79. ORGANIZATIONAL DEVELOPMENT; IMPLEMENTATION OF THE VALUES FOR ORGANIZATIONAL SUSTAINABILITY
I Wayan Edi Arsawan, Ni Putu Santi Suryantini

80. STRATEGIC INNOVATION THROUGH TECHNOLOGY READINESS AND ACCEPTANCE IN IMPLEMENTING ICT FOR CORPORATE SUSTAINABILITY
John Tampil Purba

81. FROM THE SYMBOLIC ICON OF LOTUS IN THE VIETNAMESE CULTURE,
RECOMMENDING THE NEW IDEA OF ORGANIZING THE LOTUS FESTIVAL IN DONG THAP PROVINCE OF VIETNAM (PERIOD OF 2015-2020)
Phan Thi Hong Xuan

82. BUSINESS CLIMATE FOR SMALL MEDIUM ENTERPRISES AND E-GOVERNMENT INITIATIVE
Rizal Hari Magnadi

83. APPLYING SUSTAINABILITY STRATEGY FOR SOCIOPRENEUR
Sonata Christian

84. THE INFLUENCE OF COMPANIES' CHARACTERISTICS AND ENVIRONMENTAL CERTIFICATION TOWARDS THE DISCLOSURE OF CSR IN INDONESIA
Wiwiek Dianawati

85. THE SELECTION OF CLASSIFICATION METHODS IN KANO MODEL FOR SERVICE INDUSTRY
Yenny Sari

86. FORMULATING BUSINESS STRATEGY FOR FASHION RETAIL BUSINESS: A CASE STUDY
Yuke Felicia, Liliani
Empirical Evidence of Private Debts in Indonesia

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Abstract - This study aims to examine the effect of firm size, fixed asset ratio, market to book value of equity ratio, debt maturity, and public ownership to the use of private debt on corporate manufacturing sector in IDX the period 2010-2012. This study uses the quantitative approach to multiple linear regression analysis model. The study findings suggest that firm size significant positive effect on the use of private debt, firm size quadratic significant negative effect on the use of private debt, fixed asset ratio exhibited significantly positive effect on the use of private debt, market to book value of equity ratio is not significant positive effect on the use of private debt and significant positive effect on the use of private debt, debt maturity exhibited significantly positive effect on the use of private debt and not significant positive effect on the use of private debt, public ownership exhibited is significantly positive effect on the use of private debt.

Keywords: Private Debt, Asymmetric Information Theory, Agency Theory.

Background

According to creditor, debt can be categorised into two different kinds of type namely private debt and public debt. Private debt is a loan that can be given by finance institution to private firm while public debt is a loan that can be given by society to firm. James and Weir (1988) explained compared to public debt, private debt had several advantages.

First of all, private debt is able to reduce asymmetric information compared with public debt. The opinion was supported by Eugene Fama (1985) who said private debt had an information access consisting the borrowers while public debt was unable to have it. On the other hand, if an individualowns to the society (public debt), the information regarding borrowers would be difficult to get or could be controlled through debt rating government agencies, analyst’ reports, and independent auditor. Secondly, the finance institution has a better position to monitor regarding borrowers compared to obligation security issuer. Thirdly, the finance institution is able to keep firm secret like firm investment opportunity. Lastly, by using private debt, someone could avoid a longer process and higher cost than public debt issuer.

Some researchers have discussed about loan structure such as (Denis danMihov, 2003), (Krishnaswarni, SpindtdanSubramaniam, 1998), (Dhalilwal, Inder, danRaynolde, 2002), (Lin, Ma, and Xuan, 2013), are bank loans different?: Some evidence from the stock market (James and Weir, 1988), public debt, bank debt, and non-bank private debt in emerging and developed financial markets (Yu, Johnson, andTzon, 2008).

This research aims to observe firm size, quadraticfirm size, tangible asset, growth opportunity, debt maturity, and public ownership to private debt usage.
Theoretical Study

A major firm size is described with more stable free cash flow due to fixed targets in a particular market that leads to steady sale. On the other hand, bank does not allow big loan to big firms because big firms which collapse would possibly affect bank losing considerable money. Therefore, big firms will prefer public debt (Dennis and Mihov, 2003). Small firms tend to experience unstable free cash flow. This condition is caused by the limited circumstances where these firms operate. Furthermore, small firms are difficult to get an access to capital market (public debt), like huge cost of capital/flotation cost. Hence small firms prefer to use private debt (Dennis and Mihov, 2003). It is hypothesized that the firm size is indicated to influence negative effect on private debt usage.

Firm size in quadratic would determine the loan capability to private debt or public debt. Quadratic model would explain from two sides. The first one is positive linear, a small firm using private debt, because there is limitation to access the capital market because of flotation cost. When the firm size reaches some particular point, new firm can access to capital market and automatically decrease its portion of private debt utilisation.

Finance institution (bank) needs fixed assets as a guarantee when firm utilise private debt (Madura, 2007: p394), similar with the opinion, Yu Johnson, and Tzon (2008). The reason why bank needs guarantee is because when bank gives a loan to medium quality borrowers, then bank needs to make sure that the loan has to be secured with collateral (Dennis and Mihov, 2003). To sum up, it is hypothesized that tangible asset is assumed to positively affect private debt usage.

According to Jansen in Fatmasari (2010), firms with high investment opportunity experience enormous growth and active investigation. High investigation activities will respond the increasing of opportunity. When the opportunity is increasing, manager would manage the whole projects with high NPV. This is because other managers want to control big assets that suit their remuneration. This leads managers to choose projects which are suitable with managers’ wants, unfortunately the stockholders’ wants are not always the same as the managers. This leads to agency problem that can be reduced if the stockholder apply cross monitoring through private debt. As a result, the company with high investment would prefer to use private debt. Private debt usage is able to monitor every decision made by manager (Denis and Mihov, 2003; Krishnaswarni, et al, 1998). From this explanation, it can be hypothesized that the growth opportunity seems to be positive relationship to private debt user.

Debt maturity is a date when lenders will get the repayment including the loan interest. Debt maturity can be measured by long term debt ratio toward the total debt (Lin, Ma, and Xuan, 2013). The payment due varies from 365 days to 5 years. The bigger debt maturity the major the uncertainty. The bank does not allow to give uncertain loan because the bank fund resources do not want to experience the uncertainty. The resources are from short term income like deposit, savings, etc. The bank funding resources can only be given to short term loan too (James and Weir, 1988). Therefore this research hypothesizes that debt maturity is indicated negative regarding the private debt usage.

The big stockholder prefers to choose private debt as firm funding because the stockholder wants the third person or institution which can monitor the decision made by manager, usually finance institution. With finance institution that monitors, it will reduce asymmetric information and agency problem (Meginson, 1997). Therefore, it is hypnotized that public ownership shows positive relation to the private debt usage.

Explanation and Result

The regression test to Firm Size, variable in model 1 and 2 show positive and significant impact to private debt usage. This is supported by Yu, Johnson, and Tzon (2008); Lin, Ma, and Xuan (2013) which found the significant and positive result but contradictory with Denis and Mihov’s (2013), James and Wier’s (1988); Krishnaswarni, Spindt, and Subramaniam’s (1999); Dhaliwal, Inder, and Raynolde’s research (2013) which differently found negative significant.
This means that big firms experience stable sale which produces abundant free cash flow. Abundant free cash flow is more likely used by managers to their own interest (contrary practice in order to hold the stockholder), such as upgrading facilities, selling firm’s product cheaply to another firm which belongs to the same manager. Hence, private debt has monitoring position where stockholder do their cross monitoring through private debt because it is more concerned about borrower compared with public debt.

Firm Size Quadratic variable in model 1 and 2 influenced significantly negative to private debt within quadratic. This relationship is matching with Yu, Johnson, and Tzon’s research (2009) which said the significant positive effect compared to significant negative which was said by Denis and Milhov (2013), Dhaliwal, Inder and Raynolde (2011), and Krishnaswarni, Spindt, and Subramaniam’s research (1999) which said market to book value of equity ratio influenced positive impact to private debt usage. Company with higher investment opportunity would be active to invest. This would affect an enormous growth. When the opportunity of growth is high, manager would take the whole project although he or she has negative NPV. Managers are usually interested to take those projects which suitable with them to be controlled that possibly rise their salary although the stockholder’s wants are not always matching with managers”. This will lead to agency problem. Agency problem can be
reduced when the stockholder operate cross monitoring through private debt. As a result, firms with high growth opportunity tend to choose private debt. Using private debt allows them to monitor every decision made by manager.

Debt Maturity in model 2 brings significant positive to private debt usage while Debt Maturity in model 2 shows positive but not significant result. This is contradictory with James and Wier’s research (1988) which resulted significant negative impact on private debt usage. The longer maturity the bigger the uncertainty the debt repayment. Because of that monitoring is needed. Monitoring aims to control the availability of debt repayment. During controlling process, bank can evaluate the firm loan that make them able to reduce the uncertainty.

According to the regression result, there is a hypothesis describes Public Ownership in model 1 showing positive impact to private debt is rejected, while Public Ownership in model 2 results significant and positive impact to private debt. This means stockholder prefers to choose private debt as source of funding. The bigger the public stock ownership the bigger the mechanism of controlling management behaviour. The existence of public stockholder will ease monitoring, intervention or some discipliner impact to managers resulting appropriate acts as the stockholder wants. The public stockholder wants the third person, which is the finance institution to monitor every decision made by manager. By corporation with finance institution, the asymmetric information and agency problem can hopefully be reduced.

Conclusions
The study found that firm size significant positive effect on the use of private debt model 1 and 2, firm size quadratic significant negative effect on the use of private debt model 1 and 2, fixed asset ratio exhibited significantly positive effect on the use of private debt model 1 and 2, market to book value of equity ratio is not significant positive effect on the use of private debt model 1 and significant positive effect on the use of private debt model 2, debt maturity exhibited significantly positive effect on the use of private debt model 1 and not significant positive effect on the use of private debt model 2, public ownership exhibited is not significantly positive effect on the use of private debt model 1 and significantly positive effect on the use of private debt model 2.

Reference
Fatmasari, Rhini., 2010, Hubungan antara Growth Opportunity dengan Debt Maturity dan Kebijakan Leverage serta Fungsii Covenant dalam Mengontrol Konflik Keagenan antara Shareholders dan Debtholders. *Jurnal Simposium Nasional Akuntansi* XIII


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Table 1. Margin settings for A4 size paper and letter size paper.

<table>
<thead>
<tr>
<th>Setting</th>
<th>A4 size paper</th>
<th>Letter size paper</th>
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<td>Top</td>
<td>1.2</td>
<td>0.47&quot;</td>
</tr>
<tr>
<td>Bottom</td>
<td>1.3</td>
<td>0.51&quot;</td>
</tr>
<tr>
<td>Left</td>
<td>1.15</td>
<td>0.45&quot;</td>
</tr>
<tr>
<td>Right</td>
<td>1.15</td>
<td>0.45&quot;</td>
</tr>
<tr>
<td>All other</td>
<td>0.0</td>
<td>0.0&quot;</td>
</tr>
<tr>
<td>Column width*</td>
<td>9.0</td>
<td>3.54&quot;</td>
</tr>
<tr>
<td>Column spacing*</td>
<td>0.7</td>
<td>0.28&quot;</td>
</tr>
</tbody>
</table>

* Column dialog box in Format menu.

2.3 Title, author and affiliation frame

Place the cursor on the T of Title at the top of your newly named file and type the title of the paper in lower case (no caps except for proper names). The title should not be longer than 75 characters). Delete the word Title (do not delete the paragraph end). Place the cursor on the A of A.B.Author(s) and type the name of the first author (first the initials and then the last name). If any of the co-authors have the same affiliation as the first author, add his name after an & (or a comma if more names follow). Delete the words A.B. Author etc. and place the cursor on the A of Affiliation. Type the correct affiliation (Name of the institute, City, State/Province, Country). Now delete the word Affiliation. If there are authors linked to other institutes, place the cursor at the end of the affiliation line just typed and give a return. Now type the name(s) of the author(s) and after a return the affiliation. Repeat this procedure until all affiliations have been typed.

All these texts fit in a frame which should not be changed (Width: Exactly 187 mm (7.36")); Height: Exactly 73 mm (2.87") from top margin; Lock anchor).

2.4 Abstract frame

If there are no further authors place the cursor one space behind the word ABSTRACT: and type your abstract of not more than 150 words. The top of the first line of the abstract will be 73 mm (2.87") from the top of the type area. The complete abstract will fall in the abstract frame, the settings of which should also not be changed (Width: Exactly 187 mm (7.36")); Height: Automatic; Vertical 73 mm (2.87") from margin; Lock anchor).

2.5 First line of text or heading

If your text starts with a heading, place the cursor on the I of INTRODUCTION and type the correct text for the heading. Now delete the word INTRODUCTION and start with the text after a return. This text should have the tag First paragraph.

If your text starts without a heading you should place the cursor on the I of INTRODUCTION, change the tag to First paragraph and type your text after deleting the word INTRODUCTION.

3 LAYOUT OF TEXT

3.1 Text and indenting

Text is set in two columns of 9 cm (3.54") width each with 7 mm (0.28") spacing between the columns. All text should be typed in Times New Roman, 12 pt on 13 pt line spacing except for the paper title (18 pt on 20 pt), author(s) (14 pt on 16 pt), and the small text in tables, captions and references (10 pt on 11 pt). All line spacing is exact. Never add any space between lines or paragraphs. When a column has blank lines at the bottom of the page, add space above and below headings (see opposite column). First lines of paragraphs are indented 5 mm (0.2") except for paragraphs after a heading or a blank line (First paragraph tag).

3.2 Headings

Type primary headings in capital letters roman (Heading 1 tag) and secondary and tertiary headings in lower case italics (Headings 2 and 3 tags). Headings are set flush against the left margin. The tag will give two blank lines (26 pt) above and one (13 pt) beneath the primary headings, 1½ blank lines (20 pt) above and a ½ blank line (6 pt) beneath the secondary headings and one blank line (13 pt) above the tertiary headings. Headings are not indented and neither are the first lines of text following the heading indented. If a primary heading is directly followed by a secondary heading, only a ½ blank line should be set between the two headings. In the Word programme this has to be done manually as follows: Place the cursor on the primary heading, select Paragraph in the Format menu, and change the setting for spacing after, from 13 pt to 0 pt. In the same way the setting in the secondary heading for spacing before should be changed from 20 pt to 7 pt.

3.3 Listing and numbering

When listing facts use either the style tag List signs or the style tag List numbers.
3.4 Equations

Use the equation editor of the selected word processing programme. Equations are not indented (Formula tag). Number equations consecutively and place the number with the tab key at the end of the line, between parantheses. Refer to equations by these numbers. See for example Equation 1 below:

From the above we note that \( \sin \theta = (x + y)z \) or:

\[
K_t = \left(1 - \frac{R^2 \tau}{c_a + v \tan \delta}\right)^4 k_1
\]

(1)

where \( c_a \) = interface adhesion; \( \delta \) = friction angle at interface; and \( k_1 \) = shear stiffness number.

For simple equations in the text always use superscript and subscript (select Font in the Format menu). Do not use the equation editor between text on same line.

The inline equations (equations within a sentence) in the text will automatically be converted to the AMS notation standard.

3.5 Tables

Locate tables close to the first reference to them in the text and number them consecutively. Avoid abbreviations in column headings. Indicate units in the line immediately below the heading. Explanations should be given at the foot of the table, not within the table itself. Use only horizontal rules: One above and one below the column headings and one at the foot of the table (Table rule tag: Use the Shift -minus key to actually type the rule exactly where you want it). For simple tables use the tab key and not the table option. Type all text in tables in small type: 10 on 11 points (Table text tag). Align all headings to the left of their column and start these headings with an initial capital. Type the caption above the table to the same width as the table (Table caption tag). See for example Table 1.

3.6 Figure captions

Always use the Figure caption style tag (10 points size on 11 points line space). Place the caption underneath the figure (see Section 5). Type as follows: ‘Figure 1. Caption.’ Leave about two lines of space between the figure caption and the text of the paper.

3.7 References

In the text, place the authors’ last names (without initials) and the date of publication in parentheses (see examples in Section 5). At the end of the paper, list all references in alphabetical order underneath the heading REFERENCES (Reference heading tag). The references should be typed in small text (10 pt on 11 pt) and second and further lines should be indented 5.0 mm (0.2") (Reference text tag). If several works by the same author are cited, entries should be chronological:

Larch, A.A. 1996a. Development ...
Larch, A.A. 1996b. Facilities ...
Larch, A.A. 1997. Computer ...
Larch, A.A. & Jensen, M.C. 1996. Effects of ...
Larch, A.A. & Smith, B.P. 1993. Alpine ...

3.7.1 Typography for references

Last name, First name or Initials (ed.) year. Book title. City: Publisher.

Last name, First name or Initials year. Title of article. Title of Journal (series number if necessary) volume number (issue number if necessary): page numbers.

3.7.2 Examples


3.8 Notes

These should be avoided. Insert the information in the text. In tables the following reference marks should be used: *, **, etc. and the actual footnotes set directly underneath the table.

3.9 Conclusions

Conclusions should state concisely the most important propositions of the paper as well as the author’s views of the practical implications of the results.

4 PHOTOGRAPHS AND FIGURES

Number figures consecutively in the order in which reference is made to them in the text, making no distinction between diagrams and photographs. Figures should fit within the column width of 90 mm (3.54") or within the type area width of 187 mm (7.36"). Figures, photographs, etc. can be in black/white or full color, but will be produced in the book in black/white only. Paste copies of the same size onto the typescript where you want them to appear in the text. Do not place them sideways on a page; however if this cannot be avoided, no other text (except the figure caption) should appear on that page. Figures, etc. should not be centered, but placed against the
left margin. Leave about two lines of space between the actual text and figure (including caption). Never place any text next to a figure. Leave this space blank. The most convenient place for placing figures is at the top or bottom of the page. Avoid placing text between figures as readers might not notice the text. Keep in mind that everything will be reduced to 75%. Therefore, 9 point should be the minimum size of the lettering. Lines should preferably be 0.2 mm (0.1") thick. Keep figures as simple as possible. Avoid excessive notes and designations.

Figure 1. Caption of a typical figure. Photographs will be scanned by the printer. Always supply original photographs.

Photographs should be with good contrast and on glossy paper. Photographic reproductions cut from books or journals, photocopies of photographs and screened photographs are unacceptable. The proceedings will be printed in black only. For this reason avoid the use of colour in figures and photographs. Colour is also nearly always unnecessary for scientific work.

5 PREFERENCES, SYMBOLS AND UNITS

Consistency of style is very important. Note the spacing, punctuation and caps in all the examples below.

- References in the text: Figure 1, Figures 2-4, 6, 8a, b (not abbreviated)
- References between parentheses: (Fig. 1), (Figs 2-4, 6, 8a, b) (abbreviated)
- USA / UK / Netherlands / the Netherlands instead of U.S.A. / U.K. / The Netherlands
- Author & Author (1989) instead of Author and Author (1989)
- (Author 1989a, b, Author & Author 1987) instead of (Author, 1989a,b; Author and Author, 1987)
- (Author et al. 1989) instead of (Author, Author & Author 1989)
- Use the following style: (Author, in press); (Author, in prep.); (Author, unpubl.); (Author, pers. comm.)

Always use the official SI notations:

- kg / m / kJ / mm instead of kg. (Kg) / m. / kJ. (KJ) / mm.;
- 20°16’32”SW instead of 20° 16’ 32” SW
- 0.50 instead of 0.50 (used in French text); 9000 instead of 9,000 but if more than 10,000: 10,000 instead of 10000
- \(^{14}\)C instead of C\(^{14}\) / C-14 and BP / BC / AD instead of B.P. / B.C. / A.D.
- \(\times\) 20 instead of \(\times\)20 / X20 / x 20; \(4 + 5 > 7\) instead of \(4+5>7\) but \(-8 / +8\) instead of \(-8 / +8\)
- e.g. / i.e. instead of e.g., / i.e.,

6 SUBMISSION OF MATERIAL TO THE EDITOR

The camera-ready copy of the complete paper printed on a high resolution printer on one side of the paper as well as two copies of the paper should be sent to the editor after receiving the final acceptance notice. The paper should be sent together with the signed Copyright form. Include the original photographs. Check whether the paper looks the same as this sample: Title at top of first page in 18 points, authors in 14 points and all other text in 12 points on 13 points line space, except for the small text (10 point on 11 point line space) used in tables, captions and references. Also check if the type width is 187 mm (7.36"), the column width 90 mm (3.54"), the page length is 272 mm (10.71") and that the space above the Abstract is exactly as in the sample. Write your name and the shortened title of the paper in pencil in the bottom margin of each page and number the pages correctly.

7 DEADLINE

The above material should be with the editor before the deadline for submission. Any material received too late will not be published. Send the material by airmail or by courier well packed and in time. Be sure that all pages are included in the parcel.