# ABSTRACT

The research explores the use of simultaneous regression, to examine the interdependence relationship between managerial ownership, risk, dividend policy, institutional ownership, and leverage policy for Indonesian capital market. The research tries to explain how the relationships in financial policy for manufacture firms in Indonesia. We use five models of regression to represent five different policies in firms that reflect the agency issues and conflict of interest between agent (manager), and principal (insider and outsider shareholders). Jensen and Meckling (1976) argued that agency problem arise from separation of ownership and control. Each of five policies in this research is represent conflict of interest between agent and principal. The research combined models from Crutchley, Jensen, Jahera and Raymond (1999), and Chen and Steiner (1999) to construct five-regression policies model.

We used three stages least square (3SLS) to resolve the interdependence relationship between managerial ownership, risk, dividend policy, institutional ownership, and leverage policy. We did not use ordinary least square (OLS) because less consistent and bias in predicting interdependence relationship. Samples are 136 manufacture firms in Jakarta Stock Exchange (JSX) pooled from 1998 until 2001 with 546 observations.

We find interdependence relationship between managerial ownership, risk, dividend policy, institutional ownership, and leverage policy. The relationship is linear. We also find substitution effect between dividend policy and managerial ownership and between managerial ownership and institutional ownership as predicted by agency theory. The substitution effect showed that ownership structure effectively used to reduce the agency problem between agent and principal. We failed to proof non-linearity relationship between policies to risk.

Keyword: Agency theory; managerial ownership; risk; dividend policy; institutional ownership; leverage policy