

THE IMPACT OF LARGEST SHAREHOLDER OWNERSHIP ON DEBT POLICY OF THE PUBLIC LISTED FIRMS IN RESTAURANT, HOTEL, AND TOURISM INDUSTRY: EVIDENCE FROM INDONESIA

Bram Hadianto¹

Economics Faculty, Departement of Management
Maranatha Christian University, Bandung, Indonesia
(Email: tan_han_sin@hotmail.com)

ABSTRACT

The restaurant, hotel and tourism industry is one of the industries that exists in Indonesia Stock Exchange. Every firm in industry including the restaurant, hotel, and tourism industry needs debt to finance its activity. The agency theory states that the debt can facilitate the expropriation. This study intends to know whether the debt can facilitate it by testing the relationship between the largest shareholder and debt policy. The sample is taken by simple random sampling method. The study uses the pooled data regression model as data analysis method. The result of this study shows that the largest shareholder ownership has negative impact on debt policy. That means there is no expropriation in this industry.

Keyword: debt policy, bankruptcy, expropriation.

1. INTRODUCTION

Financing policy is one kind of firm policy besides investment policy and dividend policy (Kaaro, 2003). This policy relates to determine the decision of specific mixture of debt and equity (Abor & Biekpe, 2005). Debt is a contract in which a borrower gets some funds from lender and promises to make a pre-specified stream of future payment to lender (Shleifer & Vishny, 1997).

The use of debt has two opposite effects. Debt gives benefit to the firms. According to Fosberg (2004), tax shield is benefit of the debt. This benefit may encourage firms to employ more debt. Besides benefit, the use of debt can increase bankruptcy risk of the firms (Abor, 2008). If managers issue debt, they will give the shareholders who receive the debt the right to take the firms into bankruptcy court if they do not maintain their promise to make the interest and principal payment (Jensen, 1986).

The threat caused by failure to make debt service payment serves as an effective motivating force to make such organizations more efficient (Jensen, 1986). This threat will prevent managers to enrich themselves with perks and other financial benefits such as buying luxury corporate jets, expensive corporate apartments, and doing resort vacations. As the consequence, stockholders might prefer that firms use more debt financing to pressure the managers to show their performance at high level (Titman, Keown & Martin, 2011:10-11). External debt serves as bonding mechanism for managers to convey their good intentions to shareholders (Megginson, 1997:335). In other word,

¹Doctor Candidate in Financial Management at Padjadjaran University, Bandung, Indonesia.

the debt can overcome the conflict between managers and shareholders. This conflict happens in countries where dispersed ownership structure exists in their public listed firms (Mutamimah & Hartono, 2010).

The firms with concentrated ownership structure can be found in Indonesia. In this type of ownership, majority shareholders have power to control the managers to make a decision (Mutamimah & Hartono, 2010). The majority shareholders must be the large shareholders. According to Zeckhauser & Pound (1990), the large shareholders hold a sizable fraction of all voting shares in publicly held corporations. Shareholders, who control the firm, are expected to choose the investment and financial decision to maximize their own wealth (Kalay, 1982) by shifting their business risk to the debt holders (Ismiyanti & Mahadwartha, 2008). This condition is also called the expropriation facilitated by debt (Ismiyanti & Mahadwartha, 2008).

Some previous researchers such as Sheikh & Wang (2012), Gul, Malik, Siddiqui, Razzaq (2013) confirm the expropriation facilitated by debt. They use the largest shareholder ownership to measure ownership concentration to be related to debt policy and find that largest shareholder ownership has positive impact on debt policy. On the contrary, the other research evidences show that largest shareholder ownership has negative impact on the debt policy (Liu, Tian, & Wang, 2011; Din, Javid, Imran, 2013; Yuxuan & Wenlin, 2014). In his research, Abor (2006) finds the insider shareholders tends to reduce the proportion of debt that they use to finance their firms. Besides two opposite findings, the rest show that largest shareholder ownership does not impact on debt policy (Hassan, Naughton, & Posso, 2013; Moussa & Chichti, 2014). Agyei & Osuwu (2014) also finds that institutional shareholders who hold large fraction of firms' ownership do not impact on debt policy.

Because of the inconsistency of previous research evidences, this research is conducted. The restaurant, hotel and tourism industry is used in this research because the debt ratio at this industry tends to fluctuate during 2007 to 2012 (see Table 1). This condition also supports to make sure that fluctuation of debt in this industry does not come from the expropriation effect conducted by the largest shareholder on the debtholder.

**Table 1. The Average of Debt Ratio at Restaurant, Hotel and Tourism Industry
At The End Period of 2007-2012**

Year	2007	2008	2009	2010	2011	2012
The average of debt ratio	0,5076	0,5315	0,4856	0,4620	0,5482	0,3932

Source: Processed Indonesian Capital Market Directory Data of 2008-2013

This research also uses investment opportunity and profitability as the control variable. The investment opportunity is used to know whether firms take advantage from use of debt to enrich their controlling shareholders by increasing the amount of debt. The profitability is used to know how profit allocation decision is made by the firms related to debt policy.

CONCEPTUAL FRAMEWORK AND HYPOTESIS

The Largest Shareholder Ownership and Debt Policy

The largest shareholder is a derived concept from large shareholder. Large shareholders is defined as the unique group of shareholders who hold voting power. Therefore, their investments are sensitive to firm decisions (Al-Kuwari, 2012). Large shareholders have strong incentive to put pressure on managers or even to oust them through a proxy fight or a takeover. Investors with large

ownership stakes have strong incentives to maximize their firms' value. They are able to collect information and oversee managers and so can help overcome one of the principal – agent problems in the modern corporation – that is conflict of interest between shareholders and managers (Claessens, Djankov, Fan, & Lang, 2002).

There are two effects related to the presence of large shareholders. Firstly, the positive effect. The positive effect is large shareholders mitigate the free rider problem of monitoring a management team, and hence reducing the agency costs. Shareholders with large stakes have incentive to bear monitoring costs because gains from investing in monitoring activities exceed the costs (Claessens, et al., 2002). Secondly, the negative effect. There are some negative effects mentioned by Wiwatanakatang (2001):

- a) Controlling shareholders can obtain benefits by employing companies' assets as collateral for their personal bank borrowing, and borrowing companies' funds for their personal purposes on favorable terms.
- b) Controlling shareholders may invest sub-optimally since the cost of the investment, if it fails, will be shared by the other investors.

Largest shareholder ownership is usually used as ownership concentration measurement (see Sheikh & Wang, 2012; Hassan, Naughton, & Posso, 2013; Yuxuan & Wenlin, 2014). There are two perspectives of the agency theory that are used to predict the relationship between ownership concentration and debt policy. The first perspective is leverage decreasing effect (LDE) and the second is leverage increasing effect (LIE) perspective (Siregar, 2008).

Based on LDE perspective, ownership concentration has negative impact on debt policy. The controlling shareholders are afraid about bankruptcy risk if they still use debt (Siregar, 2008). Bankruptcy occurs when the firm cannot meet a current payment on a debt obligation or one or more of the other indenture provision providing for bankruptcy is violated by the firm (Jensen & Meckling, 1976). When bankruptcy risk occurs, controlling shareholders are the parties who suffer the worst impact of bankruptcy risk (Siregar, 2008). They will lose all claims on the firms if the firms are bankrupt (Jensen & Meckling, 1976). Therefore, based on LDE perspective, the hypothesis 1a can be formulated as follows.

H1a. The largest shareholder ownership has negative impact on debt policy.

Leverage increasing effect (LIE) perspective occurs when controlling shareholders want to defend their control in the firm. The use of the external fund via equity will decrease the control of controlling shareholders in the firm. Controlling shareholder will attempt to impact debt policy to maintain their high control to be unchanged. To keep the high control, they prefer to use the debt (Siregar, 2008). Another explanation that supports LIE perspective comes from Easterbrook (1984) and Haris & Raviv (1991). Shareholders have more preference regarding to the risk of using debt whereas managers do not have preference about that. The risk-averse managers may choose projects that are safe but have a lower expected return than riskier ventures. In the shareholders perspective, riskier ventures enrich themselves at the expense of creditors (Easterbrook, 1984). When the risky project is successful (where investment yields large return above the face value of debt), equity holder capture most of the gain. When risky project is not successful (where investments are failed), debt holders get the consequences (Harris & Raviv, 1991). Therefore, shareholders induce managers to take more risk by increasing the amount of debt (Easterbrook, 1984). Therefore, based on LIE perspective, the hypothesis 1b can be formulated as follows.

H1b: The largest shareholder ownership has positive impact on debt policy.

Investment Opportunity and Debt Policy

Underinvestment is one major source of conflict which arise between bondholders and stockholders. Underinvestment occurs when the firms with outstanding bond have incentives to reject projects which have a positive net present value (NPV). This action happens because the firms do not let the benefits from accepting the projects go to bondholder in the future (Smith & Warner, 1979). To overcome this underinvestment problem, Lang, Ofek & Stulz (1996) suggests that managers of the firms with valuable growth opportunity should choose lower leverage because firms might not be able to take this advantage of their investment opportunities if they raise outside funds. The research of Bae (2009), Fatmasari (2011), and Yu (2012) confirm that investment opportunity has negative impact on debt policy. Based on these explanations, the hypothesis can be formulated as follows.

H₂: Investment opportunity has negative impact on debt policy.

Profitability and Debt Policy

Profitability describes an ability of the firm to generate the amount of profit (Hanafi, 2004:42). To explain the relationship between profitability and debt policy, I use the pecking order theory perspective. According to Gitman & Zutter (2012), pecking order is a hierarchy of financing that begins with retained earnings, followed by debt, and finally new stock issues.

When managers want to finance a new project, they will first do so using retained earnings (Gitman & Zutter, 2012:524). Retained earning comes from the accumulation of profit that the firms have got (Hanafi, 2004:313). From a pecking order theory perspective, profitable companies are able to use retained earnings instead of debt or external equity. Therefore, an inverse relationship between profitability and debt ratio is usually expected (Çitak & Ersoy, 2012).

Besides that explanation, Fischer, *et al.* (1989) in Frank & Goyal (2003) analyze the effect of having fixed costs associated with actively adjusting leverage. When a firm earns profits, debt gets paid off and leverage falls automatically. Abor (2006), Ardianto & Wibowo (2007), Ezeoha & Ofakor (2010), Agyei & Osuwu (2014) confirm profitability has negative impact on debt policy. Based on these explanations, the hypothesis can be formulated as follows.

H₃: Profitability has negative impact on debt policy.

RESEARCH METHOD

Type of Research

The type of this research is causal research. According to Zikmund, Babin, Carr, and Griffin (2010:57), causal research seeks to identify cause-and-effect relationship.

Operationalization of Research Variables

Variable is empirical assessment of a concept (Zikmund, et al., 2010). In this research, I use two type variables, i.e. dependent variable and independent variable. The debt policy acts as the dependent variable. Largest shareholder ownership and investment opportunity as well as profitability are used as the independent variable.

- a. Debt policy is measured by debt ratio (DAR) at the end of the year.
- b. Largest shareholder ownership (LRGST_SH) is measured by the largest ownership proportion value at the end of the year.
- c. Investment opportunity is measured by price to book value (PBV) at the end of year .
- d. Profitability is measured by return on asset (ROA) at the end of year.

Population, Sampling, and Sampling Method

The population in the research is public listed firms which exist in restaurant, hotel, and tourism industry in 2007-2012. The consistency of the existing firms is essential because I find the firms that have already appeared, delisted, and moved into other sectors in this period. Because of the three reasons, the sampling frame is needed. According to Zikmund, et al. (2010:393), sampling frame is a list of the elements from which the sample may be drawn. It is also called the working population because these units will eventually provide units involved in analysis.

After the sampling frame is determined, the next step is choosing the firms as samples. The research uses the probability sampling because every element in the population is known (see Zikmund, *et al.*, 2010:395). The simple random sampling is used as sampling method. The simple random sampling is sampling procedure that ensures that each element in the population will have an equal chance of being included in the sample (Zikmund, *et al.* 2010:398).

The number of sampling frame in this research is 16 firms. To get the number of samples, I use the formula developed by Isaac & Michael with 90% confidence level. The formula that is used to calculate the number of samples can be seen in Sugiyono (2010:124). After calculating samples based on this formula, I find 13 firms (rounded) as number of the samples. The names of the firms as the samples are as follows.

1. PT Bayu Buana, Tbk. (BAYU)
2. PT Fast Food Indonesia, Tbk. (FAST)
3. PT Graha Mas Citrawisata, Tbk. (GMCW)
4. PT Hotel Sahid Jaya International Tbk. (SHID)
5. PT Indonesian Paradise Property, Tbk (INPP)
6. PT Island Concepts Indonesia (ICON)
7. PT Jakarta Setiabudi Internasional Tbk. (JSPT)
8. PT Pembangunan Graha Lestari Indah Tbk (PGLI)
9. PT Pembangunan Jaya Ancol Tbk. (PJAA)
10. PT Pioneerindo Gourmet International Tbk. (PTSP)
11. PT Pudjiadi & Sons, Tbk. (PNSE)
12. PT Pudjiadi Prestige Limited Tbk. (PUDP)
13. PT Pusako Tarinka Tbk. (PSKT)

Data Collection Method

In this research, I use the archival method as the data collection method. According to Hartono (2009: 117), the archival method is used to get the secondary data. The secondary data used in this research is taken from Indonesian Capital Market Directory 2008-2013, annual report of the firms downloaded from www.idx.co.id.

Method of Data Analysis

The research employs the pooled data regression model as method of data analysis. Pooled data means combining time series data and cross-section data. By combining both of them, this research gives more informative data, more variability, less collinear among variables, more degree of freedom and more efficiency (Gujarati, 2003:636,637). According to Gujarati (2003:641), pooled data regression model disregards the space and time dimension of panel data and just estimate the usual ordinary least square regression. In this research, the pooled data regression model equation can be written as follows.

$$DAR_{it} = \beta_0 + \beta_1 LRGST_SH_{it} + \beta_2 PBV_{it} + \beta_3 ROA_{it} + e_{it}$$

Where DAR = debt ratio of firm at the end of the year t; PBV = price to book value of the firm at the end of the year, ROA = return on assets at the end of the year. e = errors term or residuals, i = cross section unit, t = time series unit.

Because the ordinary least square is used as the estimation method, several classical assumption tests must be fulfilled before the test of regression coefficients are conducted. Several classical assumptions tests consist of normality test (Gujarati, 2003:147), multicollinearity detection (Gujarati, 2003:341), heteroskedasticity test (Gujarati, 2003:397), autocorrelation test (Gujarati, 2003:442).

- Normality test is used to find out whether the errors term follow the normal distribution (Gujarati, 2003:151). Jarque-Berra (JB) Statistic test is used as normality test. If probability value of JB statistic is greater or equal to significance level (α), the errors term are normally distributed, and vice versa and the significance level is 1%.
- Multicollinearity refers to the situation where there is either an exact or approximately exact linear relationship among independent variables (Gujarati, 2003:374). Variance inflation factor (VIF) of each explanatory variable is used to detect the multicollinearity. If the VIF of a variable exceeds 10, the variable is said to be highly collinear (Gujarati, 2003:362).
- Heteroscedasticity test. The purpose of hetroskedasticity test is to test the homogeneity of residuals from one observation to the other residual observation (Ghozali, 2011:139). To do this test, Glesjer test is conducted to examine the heteroskedasticity problem (Ghozali, 2011:143). If probability value of Chi-Square is greater or equal to significance level (α), heteroscedasticity problem does not occur in the regression model. The significance level that I use is 1%.
- Autocorrelation test. The purpose of autocorrelation test is to test the existence of errors' correlation in period t and errors in previous period (t-1) (Ghozali, 2011:110). The LM test is conducted to examine the autocorrelation problem (Ghozali, 2011:113). If probability value of Chi-Square is greater or equal to significance level (α), autocorrelation problem does not occur in the regression model. The significance level that I use is 1%.

RESULTS

Descriptive Statistic Summary

Table 2 provides a summary of the descriptive statistic of all research variables. The mean of debt ratio (DAR) is 0.420427. It means 42.04% of firm assets as the samples are financed by debt. The minimum and the maximum value of DAR is 0.0178 and 0.934, respectively. The average of (PBV) as the proxy of investment opportunity is 5.1969 with the minimum and the maximum value is 0.11 and 82.35, respectively. The mean of return on assets (ROA) as the profitability proxy is 12.887% with the minimum and maximum value is -9.43% and 28.23%, respectively.

Table 2. Descriptive Statistic of The Research Variables

Variable	N	Minimum	Maximum	Mean	Standard. Deviation
DAR (decimal)	78	.0178	.9343	.420427	.2027713
LRGST_SH (%)	78	17.12	90.01	48.3290	16.88344
PBV (decimal)	78	.11	82.35	5.1969	12.60244
ROA (%)	78	-9.43	28.23	5.6571	7.36909

Source: Output of SPSS Data Processing Program

Test Results of Classical Assumptions

Table 3 shows normality test result. Based on normality test result, I find that the residuals or errors term are normality distributed. This condition is supported by probability value of Jarque-Berra statistic that is greater than significance level (α) = 0.01.

Table 3. The Result of Normality Test (Jarque-Berra Test)

Description	Unstandardized Residuals/Errors	Intepretation
Jarque-Berra	2.166664	Probability value of Jarque-Berra is 0.220281. It means residuals value are normality distributed because this probability value is less than $\alpha = 0.01$.
Probability	0.338466	

Source: Output of EViews Program

Table 4 presents muticollinearity detection result. Based on this detection, I find that variance inflation factor of LRGST_SH, PBV, ROA is 1.063, 1.051, 1.109, respectively. Because there is no explanatory variable that has variance infation factor value that exceeds 10, the multicollinearity problem does not exist in the regression model.

Table 4. The Result of Multicollinearity Detection

Explanatory Variable	VIF	Intepretation
LRGST_SH	1,063	Variance inflation factor of each explanatory variable is less than 10. It means the multicollinearity problem does not exist in the model.
PBV	1,051	
ROA	1,109	

Source: Output of SPSS Program

I find heteroskedasticity problem in the regression model (see Table 5 Panel A). This condition is supported by probability value of Chi-Square(3) that is less than $\alpha = 1\%$. In addition, I also find the autocorrelation problem in the regression model (see Table 5 Panel B). This condition is confirmed by probability value of Chi-Square (1) that is less than $\alpha = 1\%$.

Table 5. The Result of Heteroskedasticity Test and Autocorrelation Test

Panel A. The result of Heteroskedasticity Test (Glesjer Test)			
F-statistic	6.481028	Prob. F(3,74)	0.0006
Obs*R-squared	16.22978	Prob. Chi-Square(3)	0.0010
Panel B. The Result of Autocorrelation Test (Breusch-Godfrey Serial Correlation LM Test)			
F-statistic	32.66455	Prob. F(1,73)	0.0000
Obs*R-squared	24.11249	Prob. Chi-Square(1)	0.0000

Source: Output of EViews Program

It is essential to solve heteroskedasticity and autocorellation problem. When these problems occur in regression model, the OLS estimators are no longer efficient (Gujarati, 2003:454). The inefficiency of OLS estimator will cause t and F test produce inaccurate result (Gujarati, 2003:398).

To handle the autocorellation problem, the difference form equation method can be used (Gujarati 2003:478). To conduct the difference form equation, rho (ρ) must be indentified by this formula, $\rho \approx 1 - \frac{d}{2}$, where d is the statistic value of Durbin-Watson. After that, the difference form for each variable and each firm can be made as follows.

- For DAR, the formula is $DAR_t - \rho * DAR_{t-1}$. After that, the symbol is changed into DART
- For LRGST_SH transformation, the formula is $LRGST_SH_t - \rho * LRGST_SH_{t-1}$. After that, the symbol is changed into LRGST_SHT.
- For PBV, the formula is $PBV_t - \rho * PBV_{t-1}$. After that, the symbol is changed into PBVT
- For ROA, the formula is $ROA_t - \rho * ROA_{t-1}$. After that, the symbol is changed into ROAT.

In differencing procedure one observation does not exist anymore because the first observation has no antecedent. To avoid this loss of one observation, the first observation on dependent variable (Y) and independent variable (X) is transformed by Prais-Winsten transformation as follows. $Y_1\sqrt{1-\rho^2}$ and $X_1\sqrt{1-\rho^2}$ (Gujarati, 2003:478).

To overcome the heteroskedasticity problem, I use the plausible assumptions about the heteroskedasticity pattern. One assumption that Gujarati (2003:420) states is the error variance must be proportional to the expected value of dependent variable. Referring to this assumption, I attempt to transform the regression model so that the autocorrelation problem can be overcome by making the following equation:

$$\frac{DART}{E(DART_{it})} = \frac{\beta_0}{E(DART_{it})} + \beta_1 \frac{LRGST_SHT_{it}}{E(DART_{it})} + \beta_2 \frac{PBV_{it}}{E(DART_{it})} + \beta_3 \frac{ROA_{it}}{E(DART_{it})} + \frac{uit}{E(DART_{it})}$$

After the two steps are done, I find no autocorrelation and no heteroskedasticity problem in the regression model. These results can be seen in Table 6. Panel A shows the result of heteroskedasticity test. In this panel, probability value of Chi-Square is 0.0229. Because this value is greater than $\alpha = 1\%$, it means there is no heteroskedasticity problem in the regression model. Panel B shows the result of autocorrelation test. In this panel, probability value of Chi-square is 0.0625. Because this value is greater than $\alpha = 1\%$, it means there is no autocorrelation problem in the regression model.

Table 6. The Result of Heteroskedasticity and Autocorrelation Test After The Treatment to Overcome The Problems

Panel A. The result of Heteroskedasticity Test (Glesjer Test)			
F-statistic	3.436765	Prob. F(3,74)	0.0211
Obs*R-squared	9.538610	Prob. Chi-Square(3)	0.0229
Panel B. The Result of Autocorrelation Test (Breusch-Godfrey Serial Correlation LM Test)			
F-statistic	2.755539	Prob. F(1,73)	0.0703
Obs*R-squared	5.545840	Prob. Chi-Square(1)	0.0625

Source: Output of EViews Program

After the classical assumption tests are fulfilled, the next step is estimating regression equation model and conducting the hypothesis test. Table 7 presents the result of regression model estimation.

Table 7. The Result of Regression Model Estimation

Dependent Variable: DART/DARTF

Method: Least Squares

Date: 01/15/15 Time: 10:50

Sample: 1 78

Included observations: 78

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.659224	0.234403	7.078518	0.0000
LRGSTSHT/DARTF	-0.004288	0.001911	-2.244159	0.0278
PBVT/DARTF	-0.016937	0.001447	-11.70828	0.0000
ROAT/DARTF	-0.005591	0.002827	-1.977775	0.0517
R-squared	0.813835	Mean dependent var		1.192234
Adjusted R-squared	0.806288	S.D. dependent var		1.557973
S.E. of regression	0.685706	Akaike info criterion		2.133186
Sum squared resid	34.79430	Schwarz criterion		2.254043
Log likelihood	-79.19426	Hannan-Quinn criter.		2.181567
F-statistic	107.8325	Durbin-Watson stat		1.708412
Prob(F-statistic)	0.000000			

Source: Output of EViews Program

The Test of Hypothesis

Each research hypothesis is tested by t-test. This test is conducted by comparing probability value (Prob.) for each variable to significance level (α). The level of significance that I use is 10%. If the probability value exceeds 10%, research hypothesis is rejected. If probability value is less than or equal to 10%, the research hypothesis is accepted.

The first hypothesis is divided into two parts, part a (H1a) and part (H1b). H1a states that largest shareholder has negative impact on debt policy whereas H1b states that largest shareholder has positive impact on debt policy. In Table 7, the estimation sign of LRGST_SHT/DARTF is negative and its probability value is 0.0278. Because the probability value of this variable is less than 10 % and the estimation sign is negative, this research confirms the first hypothesis part a (H1a).

The second hypothesis (H₂) states investment opportunity has negative impact on debt policy. In Table 7, the estimation sign of PBVT/DARTF is negative and its probability value is 0.0000. Because of the probability value of this variable is less than 10% and the estimation sign confirms the direction of hypothesis, the second hypothesis is accepted.

The third hypothesis (H₃) states profitability has negative impact on debt policy. In Table 7, the estimation sign of ROAT/DARTF is negative and its probability value is 0.0517. Because the probability value of this variable is less than 10% and the estimation sign confirms the direction of hypothesis, the third hypothesis is accepted.

Discussion

The acceptance of first hypothesis part a (H1a) supports LDE perspective and proves that largest shareholder existence in each firm does not expropriate the debtholders because largest shareholder in each firm is afraid to be bankrupt because of debt. If bankruptcy occurs, the largest shareholder in each firm will lose all claim of the firm. The acceptance of H1a confirms previous results of Liu, Tian, & Wang (2011) Din, Javid, Imran (2013), Yuxuan & Wenlin (2014).

The acceptance of second hypothesis (H2) shows that firms attempt to avoid the underinvestment problem. The managers prefer to choose lower leverage when they have valuable growth opportunity (Lang, Ofek & Stulz, 1996). When managers choose lower leverage in that condition, they will not reject project which have positive net present value because the benefit from accepting project is not transferred to bondholder in the future (Smith & Warner, 1979). In addition, the acceptance of H2 supports previous research results of Bae (2009), Fatmasari (2011), Yu (2012).

The acceptance of third hypothesis (H3) support pecking order theory perspective (Çıtak & Ersoy, 2012). The firms with the large amount of profit must have large amount of internal financing so that they will reduce the amount of the external financing to fund their investment opportunity (Adrianto & Wibowo, 2007). In addition, the research supports previous research results of Abor (2006), Ardianto & Wibowo (2007), Ezeoha & Ofakor (2010), Agyei & Osuwu (2014).

Managerial Implication

The suppliers of fund, especially bondholders or creditors' candidate should not be afraid to offer their money to the firms in restaurant, hotel, and tourism industry at Indonesian Stock Exchange, because the shareholders who have the largest ownership in this industry will be responsible to use the funds that they have got. Their responsibility is reflected by their action in decreasing the amount of debt that they have borrowed.

CONCLUSION AND THE RECOMMENDATION

This research concludes three things based on hypotheses test. Firstly, the largest shareholder ownership has negative impact on debt policy. Secondly, investment opportunity and profitability have negative impact on debt policy. Finally, profitability have negative impact on debt policy. The recommendations are addressed to the next researchers who have an interest in debt policy topic research area. The recommendations that I mean are as follows.

1. The limitation of this research is the research only uses 6 (six) years as the observation period. The next researchers are suggested to make the longer period, for example 10 (ten) years to capture debt policy behavior in this industry.
2. The other limitation of this research is the research only uses 1 (one) main variable and 2 (two) control variables to be related to debt policy. The next researchers are suggested to add more main variables into debt policy model. The main variables that can be considered are board size, independence board, and board duality. For the control variables, the next researches can use asset growth, tangibility, firm size, systematic market risk or market beta, liquidity, business risk, firm age, non-debt tax shields.

REFERENCES

- Abor, J. (2008). Agency Theoretic Determinants of Debt Levels: Evidence from Ghana, *Review of Accounting and Finance*, 7 (2), 183-192.
- Abor, J., and Biekpe, N. (2005). What determines the capital structure of listed firms in Ghana? *African Finance Journal*, 7 (1), 37-48.
- Adrianto, and Wibowo, B. (2007) Pengujian Teori Pecking Order pada Perusahaan-Perusahaan Non Keuangan LQ45 Periode 2001-2005. *Manajemen Usahawan Indonesia*, XXXVI (12), 43-53.
- Agyei, A., and Owusu, A.R. (2014). The Effect of Ownership Structure and Corporate Governance on Capital Structure of Ghanaian Listed Manufacturing Companies, *International Journal of Academic Research in Accounting, Finance and Management Science*, 4 (1), 109-118.
- Al-Kuwari, D. (2012). Are Large Shareholders Conducting Influential Monitoring in Emerging Markets? An Investigation into the Impact of Large Shareholders on Dividend Decisions: The Case of Kuwait, *Research in World Economy*, 3 (2), 52-67.
- Bae, S.C. (2009). On the Interactions of Financing and Investment Decisions: Evidence from Chinese Industrial Companies, *Managerial Finance*, 35 (8), 691-699.
- Çıtak, L. and Ersoy, E. (2012). The Determinants of Corporate Debt Ratio: An Empirical Analysis on Turkish Corporations. *International Research Journal of Finance and Economic*, 95, 151-162.
- Claessens, S., Djankov, S., Fan, J.P.H. and Lang, L.H.P. (2002). Disentangling the Incentive and Entrenchment Effects of Large Shareholdings. *The Journal of Finance*, LVII (6), 2741-2772.
- Din, S.U., Javid, A. and Imran, M. (2013). External and Internal Ownership Concentration And Debt Decisions in An Emerging Market: Evidence From Pakistan, *Asian Economic and Financial Review*, 3(12), 1583-1597.
- Easterbrook, F.H. (1984). Two Agency-Cost Explanations of Dividends, *The American Economic Review*, 74 (4), 650-669.
- Ezeoha, A.E., and Ofakor, F.O. (2010). Local Corporate Ownership and Capital Structure Decisions in Nigeria: A Developing Country Perspective, *Corporate Governance*, 10 (3), 249 – 260.

- Fatmasari, R. (2011). The Relation Between Growth Opportunity, Leverage Policy and Function of Covenant to control The Agency Conflict between Shareholders and Debtholders, *Bulletin of Monetary, Economics and Banking*, 13 (3), 307-324.
- Fosberg, R.H. (2004). Agency Problems and Debt Financing: Leadership Structure Effects. *Corporate Governance*, 4 (1), 31-38.
- Frank, M.Z. and Goyal, V.K. (2003). Testing the Pecking Order Theory of Capital Structure, *Journal of Financial Economics* 67, 217–248.
- Gitman, L.J. and Zutter, C.J. (2012). *Principles of Managerial Finance*. 13th edition. Boston, USA: Prentice Hall.
- Gujarati, D.N. (2003). *Basic Econometrics*. Fourth Editon. Singapore: McGraw-Hill Education.
- Gul, S., Malik, F., Siddiqui, M.F., and Razzaq, N. (2013). Corporate Governance and Financing Decisions of Listed Firms in Pakistan, *European Journal of Business and Management*, 5 (23), 74-80.
- Hanafi, M. (2004). *Manajemen Keuangan*. Edisi 2004/2005. Yogyakarta, Indonesia: Badan Penebit FE-UGM.
- Harris, M. and Raviv, A. (1991). The Theory of Capital Stucture, *The Journal of Finance*, 46 (1), 297-355.
- Hartono, J. (2009). *Metodologi Penelitian Bisnis: Salah Kaprah dan Pengalaman-Pengalaman*. Edisi 2007. Cetakan Kedua. Yogyakarta, Indonesia: Badan Penerbit FE-UGM.
- Hassan, H., Naughton,T. and Posso, A. (2013). The Effectiveness of Ownership Concentration, Debt and Firm Value as Governance Mechanisms, *Global Economy and Finance Journal*, 6 (2), 68-82.
- Ismiyanti, F. and Mahadwartha, P.A. (2008). Does Debt Affect Firm Financial Performance? The Role of Debt on Corporate Governance in Indonesia. *The Indonesian Journal of Accounting Research*, 11 (1), 1-22.
- Jensen, M.C. (1996). Agency costs of Free Cash Flow, *Corporate Finance and Takeovers*. *American Economic Review*, 76 (2), 323-329.
- Jensen, M.C. and Meckling, W.H. (1976). Theory of The Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics* 3, 305-360.
- Kaaro, H. (2003). Simultaneous Analysis of Corporate Investment, Dividend, and Finance: Empirical Evidence under High Uncertainty. *Journal of Accounting, Management, and Economic Research*, 3 (1): 1-17.

- Kalay, A. (1982). Shareholder-Bondholder Conflict and Dividend Constraint. *Journal of Financial Economics*, 10: 211-233.
- Lang, L., Ofek, E., and Stulz, R.M. (1996). Leverage, Investment, and Firm Growth. *Journal of Financial Economics*, 40, 3-29.
- Liu, Q., Tian, G. and Wang, X. (2011). The effect of Ownership Structure on Leverage Decision: New Evidence from Chinese Listed Firms. *Journal of the Asia Pacific Economy*, 16 (2), 254-276.
- Meggison, W.L. (1999). *Corporate Finance Theory*. USA: Addison-Wesley Educational Publisher Incorporation.
- Moussa, F.B., and Chichti, J., (2014). A Survey on the Relationship between Ownership Structure, Debt Policy and Dividend Policy in Tunisian Stock Exchange: Three Stage Least Square Simultaneous Model Approach, *International Journal of Accounting and Economics Studies*, 2 (1), 1-21.
- Mutamimah, and Hartono. S. (2010). Dividend, Debt, and Investment Policies as Corporate Governance Mechanism. *Investment Management and Financial Innovations*, 7 (2), 209-216.
- Sheikh, N.A. and Wang, Z. (2012). Effects of Corporate Governance on Capital Structure: Empirical Evidence from Pakistan. *Corporate Governance*, 12 (5), 629-641.
- Shleifer, A. and Vishny, R.W. (1997). A Survey of Corporate Governance, *The Journal of Finance*, 52 (2): 737-783.
- Siregar, B. (2008). Ekspropriasi Melalui Utang dalam Struktur Kepemilikan Ultimat, *Jurnal Ekonomi dan Bisnis Indonesia*, 23 (4), 431-453.
- Smith, C.W. and Warner, J.B. (1979). On Financial Contracting: An Analysis of Bond Covenants, *Journal of Financial Economics* 7, 117-161.
- Sugiyono. (2010). *Metode Penelitian Bisnis (Pendekatan Kuantitatif, Kualitatif, dan R&D)*. Cetakan 15. Bandung, Indonesia: Penerbit Alfabeta.
- Titman, S., Keown, A.J., and Martin, J.D.(2011). *Financial Management: Principles and Applications*, Eleventh Edition. United State of America, Boston: Prentice-Hall.
- Wiwattanakantang, Y. (2001). Controlling shareholders and corporate value: Evidence from Thailand, *Pacific-Basin Finance Journal*, 9, 323-362.
- Yu, B. (2012). Agency Costs of Stakeholders and Capital structure: International Evidence, *Managerial Finance*, 38(3), 303-324.

Yuxuan, Y and Wenlin, G. (2014). An Empirical Study on Factors influencing Capital Structure of Pharmaceutical Listed Corporations. *Journal of Chemical and Pharmaceutical Research*, 6 (6), 1042-1046.

Zeckhauser, R.J., and Pound, J. (1990), Are Large Shareholders Effective Monitors? An Investigation of Share Ownership and Corporate Performance. Retrieved January 2, 2015, from <http://www.nber.org/chapters/c11471.pdf>.

Zikmund, W.G., Babin, B.J., Carr, J.C. and Griffin, M. (2010). *Business Research Methods*. Eight Edition, Canada: South-Western Cengage Learning.