DEBT POLICY AS CORPORATE GOVERNANCE MECHANISM IN CONCENTRATED OWNERSHIP

Mutamimah
FE Universitas Islam Sultan Agung, Semarang, email: muta_mimah@yahoo.com

Abstract
This research aims to test the debt policy as a mechanism to reduce agency conflict among majority and minority shareholders. This test aims to answer the problems to what extend debt can be used as corporate governance mechanism in a sense of reducing agency conflict. This research is important since most of company ownership structure in Indonesia is categorized concentrated structure, where its make a conflict between majority and minority shareholders. The populations of the research are companies that go public in the Indonesian capital market until the year of 2003. These samples of this research consist of 40 companies that are selected based on nonprobability technique with purposive sampling method. They were then divided into two groups, high concentrated ownership structure and low concentrated ownership structure. In processes testing the hypothesis, 2 indicators were used, i.e. market indicator and accounting indicator. Event study analysis was used for market indicator, whereas multiple regression analysis was used for accounting indicator. Based on empirical examination result, it is generally concluded that debt policy cannot be used as mechanism to reduce agency conflict among majority and minority shareholders, both at high and low concentrated ownership structure. This is because of average company debt are higher than average industry debt. Debt policy tend be used as a tool of expropriation to minority shareholders. The expropriation is higher at high concentrated ownership structure rather than at low concentrated ownership structure and the difference is significant.

Keywords: corporate governance, expropriation, concentrated ownership, debt policy

1. Research Background
The main issue of this research is the fact that the ownership structure in Indonesia is categorized high concentrated, where the current agency conflict is the conflict between majority shareholders with minority shareholders. Agency conflict occurs because of asymmetric information and different objective among stakeholders in the company. Agency conflict occurs between shareholders and managers or between shareholders and creditor (Jensen and Meckling, 1976). But later, agency conflict also occurs between majority shareholders and minority shareholders, between minority shareholders and other stakeholders, like employees and suppliers (Zhuang et al., 2000; and Ariyoto, 2000). This policy is effective as corporate governance mechanism, when market response this policy positively. It will lead to increase company performance (Denis, 2001).

Debt policy is used as corporate governance mechanism to reduce agency conflict (Jensen and Meckling, 1976; McConnel and Servaes, 1995; Faccio, Lang, and Young, 2001). The increasing of debt can reduce conflict of free cash flow and show to public that majority shareholders do not use the free cash-flow for their own sake. The increasing of debt will drive a company to use the cash efficiently, because the cash is used to pay debt interest periodically. Debt generates external monitoring; consequently, the majority shareholders should conduct the best performance to improve the company’s performance. This is referred as control hypothesis (Faccio, Lang, and Young, 2001; Jensen, 1986; Sarkar and Sarkar, 2005).

The structure of ownership determines agency conflict type. At dispersed ownership structure, the agency conflict that might occur is the conflict between shareholders and managers. Nevertheless, at concentrated ownership structure, the agency conflict that might occur is the conflict between majority shareholders with minority shareholders. The ownership structure in Indonesia is high concentrated. Therefore, the researcher finds it interesting to analyze the influence of corporate governance on the company’s performance by using debt policy analysis on the concentrated ownership structure. The hypothesis of this research is whether the debt policies can be used as corporate governance mechanism that can influence the company’s performance. The objective of this research is to examine the influence of corporate governance mechanism on the company’s performance by using debt policy analysis. The motivations of this research are as follow, First, The fact that the concentrated ownership structure in Indonesia leads to the agency conflict between majority shareholders with minority shareholders drives the researcher to examine debt policy as corporate governance mechanism on the levels of high and low concentrated ownership structures. Throughout this analysis, the researcher can understand the appropriate policies for each concentrated ownership structural level. Second, the research results concerning the influence of policy of debt to company’s performance still contradict to one another.

This research is expected to give the contribution to empirical contribution, methodologies, and policies. Empirical contribution is to prove the debt policy as corporate governance mechanism to reduce agency conflict among majority and minority shareholders. The result of the research is expected to support the reference books on corporate governance mechanism in correlation with the concentrated ownership structure in emerging market and to be the resource for the coming research related to corporate governance. Methodologies contribution indicates that so far there have been no researches examining the policy to reduce agency conflict in the concentrated ownership structure using market indicator and accounting indicator. The existing previous research examined only one policy using one indicator. Therefore, the result of this research is expected to give information to Bapepam and stock exchange concerning the