SHARE OWNERSHIP, BUSINESS RISK AND DEBT POLICY AT THE WHOLESALE COMPANY

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Abstract - Purpose of this research to determine the effect of managerial ownership, institutional ownership, and business risk to debt policy at the wholesale companies listed in Indonesia Stock Exchange in 2011-2013. The method of analysis used in this study regression. Before that using classical assumption of normality test, multicollinearity, heteroscedasticity, autocorrelation test. Then test the hypothesis that the F test and t test were processed through SPSS 16 program. Based on the results of hypothesis testing found that the business risk affects significantly on the debt policy for wholesale companies. The managerial and institutional ownerships do not affect significantly on the debt policy.

Keywords - Managerial Ownership, Institutional Ownership, Business Risk, Debt Policy.

I. INTRODUCTION

A company has risks when it uses loans as its source of fund. There will be considerable risks for the company if it has considerable debt in its capital structure. Company using loans in its structure capital will be prepared for any sanctions and risks if these are not well-managed. One of its risks is its company asset liquidation by lower prices if the company can not meet its company liabilities.
Company must have ability to manage the use of loans appropriately, including any companies listed in services, trade and investment sectors. The services, trade and investment sectors consist of seven sub-sectors, namely
(1) wholesale
(2) tourism, restaurant and hotel,
(3) retail trade, retail trade
(4) advertising, printing and media,
(5) investment company, investment company
(6) computer and service
(7) others. In this research, it will study on the wholesale sub sector. Wholesale is a company running its business in the field of big-scale sales.

Good debt management is required to prevent business bankruptcy. Overload debt use will provide inability for the company to pay off its loans. Appropriate policies to prevent or anticipate bankruptcy is debt policy. By making debt use policy based on its proportion and priority, if it is applied consistently by the financial manager, so it will provide positive impacts for the company in the future and the company will be avoided from bankruptcy. And the other way around, if the debt policy is not applied and managed consistently, so these can provide negative impacts on the company in the future and the company will get bankruptcy.
There are many factors affecting on the company debt policies, one of which is company share ownership, namely managerial ownership which this managerial ownership serves as a manager for the company with number of shares so that these provide easiness for the manager to optimize the debt uses in the company activity. Another factor affecting on the debt policy is the institutional ownership in which the shares are owned by institutional investors (external). The higher the institutional investor share ownership will lead to an ability to cover some funds from the use of debt and this can also decrease problems of agency in the company [1]. Another factor that must be considered in assessing the debt policy is the business risk as an equity risk from operational activity natures of a company [13]. A research conducted by [2] stated that the managerial ownership does not affect on the debt policy. [16] said that the managerial ownership affects on the direction of negative relation. Meanwhile, a research testing on the institutional ownership on the debt policy by [7] stated that the institutional ownership affects positively on the debt policy. It is different to a research conducted by [12] stating that the institutional ownership does not affect on the debt policy.
A research testing on the business risk effects on the debt policy was conducted by [9] and [12] stated that business risks provide negative significant effects on the debt policy. It is different to the research [2] stating that the business risk does not have effects on the debt policy.

II. LITERATURE REVIEWS AND HYPHOTHESIS,

Debt Policy
Debt policy includes company funding policy from external. Debt is a liability owned by a company taken from external funds such as banking debts, leasing, obligation sales and others [3]. Determination of debt policy relates to the capital structure because debt is one of the combinations in the capital structure. According to [4] company is assessed to

have risks if it has big debt portion in its capital structure, but, if a company has debt in small portion or has no debt at all, then the company is assessed to have no ability to utilize additional external capital that can increase the company operational.

A company must always have funds to support its activity, sources of fund are from its equity or loans (bank or other financial institutions)[6]. A company can select the funds from one of the sources or combination of both. Each source of fund has its advantages and weaknesses. Such as its equity use, it has advantages, namely easily to be obtained and relatively long return period. The other way around, the weaknesses in the equity use are relatively limited amount, mainly when the company needs considerable amount, and if the company needs funds from debt with an over namely the amount that is obtained relatively in limited amount so that a manager work should be in a careful manner because the use of debt can increase the risk of company business.

Advantage of the use of debt is the interest paid on the debt can be tax rebate and return on the debt has fixed number, so that shareholders cannot accept the company profit if the company has excellent profit. The weakness of the use of debt is that the use of considerable debt will improve the company risk and if the company is in a difficult position and its operational profit cannot meet it liability payment. The highest risk in the use of debt is the increase of company bankruptcy probability, the higher use of debt leads to the higher probability of company bankruptcy. Therefore, for some creditors giving loan to debtors, they want for any collateral for each loan, the collateral can be in the forms of land, building, vehicles and various forms of other assets mainly the fixed assets.

According to [3], each decision related to loan taking or addition can be seen from 2 (two) perspectives, namely : from the point of debt company management, it is seen as an alternative of funds giving constructive solution, both long term and short term. Meanwhile from the perspective of shareholders, issuance and sale policy of right issue is seen as the second alternative of sales after the debt policy. Funding using debt is a source of external having more attention from the shareholders, because the interest of most debt is the same, and if the interest is smaller than the return on net operational assets, so the different of return will be the investor's profit.

Theory of Funding (Debt) Policy

Trade-Off Theory

This trade-off theory estimates that target of debt ratio will vary ranging from a company to others. A company with tangible and secure assets as well as protected overflow taxable income uses high target of ratio. Meanwhile a company having no profit on tangible and risky assets should only use equity funding. When using more debts, a company will be charged to various burdens, the burdens are in the form of bankruptcy cost, agency cost, higher interest burden and others causing the decreasing of share price [5].

Pecking Order Theory.

The pecking order theory determines a funding decision in which the managers will firstly select to use retained earnings, and the last options will be the use of debt and issuance of share [4]. The use of debt is more preferable because the cost spent for the debt is cheaper than the cost on share issuance. The pecking order theory is as the following [1] ; (1) A company prefers internal funding because it can collect the funds without giving any signs to outside parties. (2) If it is required external fund, the company will firstly issue debts and then issue equity as the last option. The pecking order theory does not deny that tax and financial problems can be an important factor in selection of capital structure. Although, this theory states that the factors have less importance than preference of manager on internal funds exceeding the external fund and on the debt funding exceeds the issuance of new shares.

Factors affecting on the debt policy

A. Managerial leadership.

In a company, it is natural that there will be problems on agency conflict, the agency conflict is a conflict between company owners, employees and company managers in which there is a tendency that a manager prioritizes on individual interest than the company interest. [14] stated that to decrease agency conflict problem between insider and outsider, the company party can determine a policy that a manager is given stock option right, namely a right to purchase on some certain shares with predetermined price; so the manager will always increase its company share price because the manager can directly feel the impacts of the decision that they make.

The managerial leadership has inverse relation with the company debts, because a manager will be more careful in applying a policy including the funding policy through debts. A manager does not want his company to be in a financial difficulty even in bankruptcy. This can give great loss for the manager, because as a manager, he or she will loss incentive and as a shareholder, he or she will loss return or invested funds.

B. Institutional Ownership

Institutional ownership is when institutional party (outside party) can increase the authority in monitoring the company condition, it is according to [11]. Meanwhile [2] stated that the institutional share will improve optimal monitoring. The monitoring mechanism will improve shareholder prosperity if

there are considerable shares owned by the institution. If the investors are not satisfied to the performance of company, so they will sell the shares that they own. This will provide negative effects on the company causing the decrease on company share price and followed by the decrease of company value. So the company is required to have an ability to improve its performance. The higher the company institutional ownership will lead to the smaller debt used by the company. Because it is not only met its funds from the selling of shares, but there is also another factors causing the effects of institutional ownership on the debt policy, namely the monitoring from the institutions, such as bank and insurance party.

C. Business Risk,

Business risks have variations ranging from an industry to other industries, also for companies in similar industry. Also, the business risk can change from time to time. A company with high debt operation and higher business risks should limit its company use of debts. This is to avoid the increasing its bankruptcy probability.

Hypotheses

H_1 : Managerial ownership affects negatively on the debt policy.

H_2 : Institutional ownership affects negatively on the debt policy.

H_3 : Business risk affects negatively on the debt policy.

III. METHODOLOGY

Population in this research is the entire wholesale companies listed in Indonesian Stock Exchange in the period of report of 2010 – 2013. In this research, the date is used secondary data. To meet the research requirements, it is used pooling data, the pooling data is combination of time series and cross section [15], so that it is obtained 92 data. The data is managerial ownership data for managerial ownership variable, the institutional ownership for institutional ownership variable, price of share closing for business risk variable as well as debt ratio (DTA) for debt policy variable.

Definition of Operational variable

a. Debt policy, [6]

$$DTA = \frac{\text{Total debt}}{\text{total assets}}$$

b. Managerial Ownership, [10]

$$MWON = \frac{\text{Total managerial ownership}}{\text{Total outstanding shares}}$$

C. Institutional Ownership, [10]

$$INST = \frac{\text{Total institutional ownership}}{\text{Total outstanding shares}}$$

Risiko Bisnis, [9]

Risk = STDEV Return it

In this research, to reach its objectives, it is used multiple regression analysis because there are more than two independent variables. The regression equation in this research can be illustrated as follow:

DTA = α + β1 MOWN + β2 INST + B3 BRISK + ε

Explanation:

DTA= Debt policy as the proxy to debt to total asset,

α= Constanta,

= Regression coefficient from each independent variable.

MOWN= Managerial Ownership,

INST = Institutional Ownership

BRISK = Business risk as the proxy to deviation standard of share return.

The Constanta is reflected in "α", and the regression coefficient of each independent variable is shown respectively by β_1, β_2, β_3. Deviation Testing on Classical Assumption is normality test, multicollinearity, heretoscedasticity, and autocorrelation test.

IV. RESULTS AND ANALYSIS,

There is 92 data used in this processing. The data processing process is conducted by assistance of SPSS 16 program. After performing the classical assumption test, then it is explained on the multiple linear regression analysis and hypothesis test analysis.

Variable	Coefficient Correlation	Sig	Alpha	Conclution
(Constanta)	19,435	-	-	-
Managerial Ownership	-18,743	0,207	0,05	Not Significant
Institutional Ownership	-18,840	0,203	0,05	Not Significant
Business Risk	-0, 908	0,013	0,05	Significant
R-Square : 0,109				

Table 1 Regression Analysis

In the table 1 results above, each variable has correlation coefficient value so that it can be formed in the multiple regression model seen as the following : Y = 19.435 - 18.743X1 - 18.840X2 - 0, 908X3. From the model, it can be seen that there is negative relation between independent variables and dependent variables.

Hypothesis test and Discussion

First Hypothesis Test

Managerial ownership does not affect significantly on the debt policy in the wholesale companies. This finding is in line to the research by [2] having conclusion that the managerial ownership does not affect significantly on the company debt policy.

This is because the manager can be said to work by himself. A manager does not work as a manager in the company, a manager also has a number of share in the company so that the manager has no time to monitor the share that they have, the manager takes debt policy for the sake of the company, so that it can be said that the manager is consistent in running this duties namely to optimize the company value. So, the presence or the absence of share ownership by the management, the manager is still to apply his duties namely to optimize the company value. So that, the managerial ownership does not affect on the company debt policy.

Second Hypothesis Testing.

Institutional ownership does not affect significantly and has negative effects on the debt policy in wholesale companies. The proportion of institutional ownership in the company listed in wholesale. This finding is in line to the research by [11] having conclusion that the institutional ownership does not affect significantly on the comp
There will be this deviation because there is relative small proportion of the institutional ownership in the companies listed in whol
taken by the company including the debt policy and the investors for the companies listed in the wholesale.

Third Hypothesis testing,

The third hypothesis testing is whether the business risk affects significantly on the debt policy in wholesale companies. This research is in line to a research by [10] and [9]finding that the business risk of a company affects significantly with negative relation on company debt policy. Based on the theory stating that the business risk can affect on the company debt policy with negative direction.

Companies grouped into wholesale company do not always provide attention on the business risk that they face. Because if a company with business risk so the risk can be solved by high rate of liquidity or company current ratio. One of the functions of current ratio is to see the margin of safety and ability to meet liabilities of a company [6]. Although a company has high business risk, the company will not worry because the high company liquidity will always lead to debt well-adjusted to its demand. This also leads to higher risk of company return.

CONCLUSION

Based on the analysis and discussion of hypothesis test results, the business risk affects significantly on the debt policy for wholesale companies. The managerial and institutional ownerships do not affect significantly on the debt policy in wholesale companies.

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