

UDC 334

**INVESTMENT OPPORTUNITY SET, OWNERSHIP STRUCTURE AND FUNDING POLICY:
AN AGENCY THEORY APPROACH**

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ABSTRACT

The objective of this study is to evaluate and analyze the influence of Investment Opportunity Set (IOS) towards funding policy of a company as well as the influence of two moderating variables, public and foreign ownership, towards the relationship between IOS and funding policy. The researchers involved control variables in order to describe the influence of IOS and funding policy. The control variables were firm size, business risk and profitability. The population was all companies listed in Indonesian Stock Exchange between 2008 and 2016. The sampling method was purposive sampling. The data analysis methods were regression model for panel data, Eviews and Factor Analysis. Based on the data analysis, IOS has negative influence towards funding policy. As the result, companies with lower debt to equity ratio in their funding structure tend to use their own capital (equity financing) to eliminate agency issues. Government ownership strengthened the influence of IOS towards funding place both before and after the control variables were involved. This showed that government can influence policy-making in the company and government regulation can either improve or become hindrance for performance. Foreign ownership also strengthened the influence of IOS towards funding policy, both before and after the control variables were involved. Therefore, companies can get higher amount of investment through foreign ownership in terms of, for example, management system, technology and innovation, skills and marketing. In addition, companies can hire well-experienced managers who can improve their performance.

KEY WORDS

Investment Opportunity Set, Government ownership, Foreign Ownership, Funding Policy, Firm Size, Business Risk, Profitability and Agency Theory

Economic growth of the countries affected by the crisis plummeted. OECD (Organization for Economic Co-operation and Development) described economic growth of 30 of the G20 member countries fell to to 4.3% (Bank Indonesia, 2009). In addition, the 2008 global crisis also hit the economic growth of Indonesia quite severely. Bank of Indonesia reported that the national economic growth decreased from 6.01% in to 4.63% in 2009. The decline has significant influence towards investment and therefore, companies are very careful in making any investment or designing funding policy. Companies should be aware of some factors that cause investment failure, for example very few companies use their competitive advantages (for example multinationality, size and profitability) and their limitations (such as leverage and systematic risk) (Alnajjar & Riahi-belkaoui, 2001; Pagalung, 2003).

Choice of investment or growth in a company is attached and inherently unobservable, and thus, IOS requires a proxy (Gaver & Gaver, 1993). Market Value Equity to book value of equity (MVEBVE), Earnings to price ratios (PER), Ratio of property, plant, and equipment to firm value of the assets (PPEFVA), *Tobin's Q*, dan Investment to Net Sales (INS) ratio are price-based proxy that can measure IOS (Gaver & Gaver, 1993; Kallapur & Trombley, 1999; Smith & Watts, 1992). Large companies are relatively stable and profitable and as the result, have higher efficiency and lower financial leverage (Chan & Chen, 1991). Risk-averse investors tend to make investment in large companies (Soebiantoro, 2007). Alnajjar & Riahi-belkaoui, (2001); Pagalung (2003) showed that profitabilty has positive influence towards IOS.

Megginson (1997) stated that ownership structure influence funding policy (debt). Role of shareholders towards investment efficiency of a company minimize over-investment but at the same time creates more problems, for example agency cost (Jiang, Cai, Wang, & Zhu, 2018). It is in line with (Vo, 2018) increase of agency cost took place when company make inefficient investment. Based on the previous related studies and novelty of this study, the researchers developed several types of proxy to measure IOS, the independent variable, namely Market Value Equity to Book Value of Equity (MVEBVE), Earnings to Price Ratios (PER), Ratio of Property, Plant, and Equipment to Firm Value of the Assets (PPEFVA), *Tobin's Q*, and Rasio Investment to Net Sales (INS) in order to describe its influence towards funding policy as the dependent variable, involved 2 moderating variables, namely public and foreign ownership, and used firm size, business risk and profitability as the control (Ardestani et al., 2013b; Connor, 2013; Khanqah, Vahid and Ahmadnia, 2013; Rosdini, 2011; San Martín Reyna, 2017; Subramaniam & Shaiban, 2011; Sun, 2009). The researchers used both the moderating variables and control variables since there were other variables that influence relationship between the independent and dependent variables (Ghozali, 2006).

It is expected that the study can provide different empirical evidence (research) and contribute to the body of knowledge, particularly agency theory in which with his or her authority, manager's decision-making depends heavily upon the manager's interest instead of shareholder's interest (Meilita & Rokhmawati, 2017). Based on the information, ownership structure is considered as one of the alternatives to minimize conflict of interest in a company (Bathala, Moon, & Rao, 1994).

LITERATURE REVIEW

Agency Theory

Agency theory is developed based on three assumptions, namely assumptions about human nature, organization and information. Responsible for running a company, manager has more access to internal information and future prospects of the company compared to owner/ shareholders (Kathleen Eisenhardt, 1989). According to Jensen & Meckling (1976), conflict between managers and shareholders took place due to decision-making on fundraising activities and how the fund is invested.

Jensen (1983) identified two approaches in the development of agency theory, namely "positive theory of agency" and "principal-agent literatures." Agency cost may occur in the form of spending excessive amount of company's fund buy facilities for managers, holding company's profit for less profitable investment, and any practice that minimize company's profit or asset. Agency costs associated to shareholder and manager is called Type 1 Agency Cost (Villalonga, Amit, Trujillo, & Guzmán, 2015; Villalonga et al., 2006). Furthermore, agency cost that occurs between controlling and non-controlling shareholders is called Type II Agency Cost (Villalonga et al., 2015, 2006). Issues taking place due to taking fund from external party/bank (debtholder) resulting in agency cost between shareholder and debtholder is called Type III Agency Costs (Bozec & Laurin, 2008). In short, agency costs take place due to conflicting principles between individuals/institutions (Jensen & Meckling, 1976).

Funding Policy

Funding policy refers to methods companies apply to use external funding (debt) to minimize risks they should bear (Sartono, 2001). Risk of bankruptcy may have significant influence towards investor since stock price will be fluctuating (Cruthley, Claire, E., and Robert, 1989). Funding policy can be implemented in order to reduce agency cost because shareholders will monitor management; however when monitoring is too costly, they will use the third party/ debtholders and/or bondholders for monitoring (Easterbrook, 1984).

Investment Opportunity Set (IOS)

IOS is available investment alternatives companies have in the future (Hartono, 1999). Potential growth of a company can be estimated based on (Myers & Turnbull, 1977)'S IOS, which refers to investment decision in the form of combination of assets held in the future that influence value of a company. IOS proxy approach in composite manner will minimize error in measurement inherently attached to single variable (Kallapur & Trombley, 2001).

Ownership Structure

Roles of ownership structure are to adjust and optimize strategic option and performance of a company (Banerjee & Homroy, 2018). Bathala, Moon, & Rao (1994) explained that there are few methods that can overcome conflict of interests, namely: a) increase insider ownership, b) increase earning after tax, c) increase external funding (debt), and d) institutional holdings. Cruthley, Claire, E., and Robert (1989) postulated increasing debt to control agency costs will increase risk for bankruptcy and also business risk/ earning volatility. Debt is incentive for managers to work hard in order to avoid bankruptcy (Grossman & Hart, 1986) and thus, debt also plays a role in decreasing manager's incentive for excessive consumption (Megginson, 1997).

Shleifer & Vishny (1986) state that majority shareholders can overcome agency costs by separating between control and ownership through stricter monitoring and takeover bid. Mitton (2002) explained that stock performance of companies during the crisis increased as increasing concentration of the owners. La Porta, Lopez-de-Silanes, & Shleifer (1999) claimed that government ownership has negative influence towards performance of a company. Government can cause decline in business performance since they have yet been able to run companies well.

Foreign investor is expected to increase business performance for a number of reasons. First, foreign investors will give higher pressure for managers and provide additional monitoring. Secondly, foreign investors have a lot of funding to invest (capital) and can hire experienced managers. Third, foreign investors help local companies they make investment in get access to international market and thus, capital cost is gradually decreasing (Bekaert & Harvey, 2000).

Myers & Turnbull (1977) argue that potentially growing companies have higher risk for debt since growing companies tend to minimize their debt. Siallagan & Machfoedz (2006) stated that conflict of interest between manager and bondholders can be anticipated with leverage. Companies with lower leverage have lower business risk when the economic sector plummeted and will have lower profit once the sector is improving (Machfoedz, 1994). Fama & French (2002) reported that there is a positive relationship between IOS and debt in which companies with higher IOS will also have higher debt. Gaver & Gaver (1993) suggested that rapidly growing companies tend to have lower debt to equity ratio. It is in line with Smith & Watts (1992) that companies with higher opportunity for expansion has lower debt to equity ratio in their funding policy. These indicated that there are various perspectives on conflict resolution and risk related to debt/funding. Therefore, the first hypothesis is:

H₁: IOS has negative influence towards funding policy

Ownership structure and management (government involvement in management) are two major factors influencing behavior and performance of companies and as the effect, performance of companies depends heavily on government intervention (Li, McMurray, Sy, & Xue, 2018). Siallagan & Januarti (2014) stated that government ownership has negative influence towards performance of companies. On the other side, government also influences

funding policy companies choose (Boubakri, El Ghouli, Guedhami, & Megginson, 2018). Shen & Lin (2009) explained that government or bureaucrats puts higher emphasis on social and political interests than those of companies and consequently, based on the agency theories, many times government has other objectives but improving corporate performance. It results in companies declining control over managers. Therefore, the second hypothesis is:

H₂: Government ownership strengthens the influence of IOS towards funding policy.

Foreign ownership is one method to improve good corporate governance (Fauzi, 2006; Simerly & Li, 2000). Setiawan et al., (2016) stated that foreign ownership refers to outstanding share portion foreign investors have. Higher foreign investment means lower debt since one of the sources of funding is foreign investment. By inviting various individuals or institutions to make investment, owners indicated that he or she is not vulnerable or does not have opportunity for asset transfer on a large-scale (Stepanov & Suvorov, 2017). Therefore, the third hypothesis is:

H₃: Foreign ownership strengthens the influence of IOS towards funding policy.

Figure 1 described conceptual framework described based on the literature review and hypothesis testing.

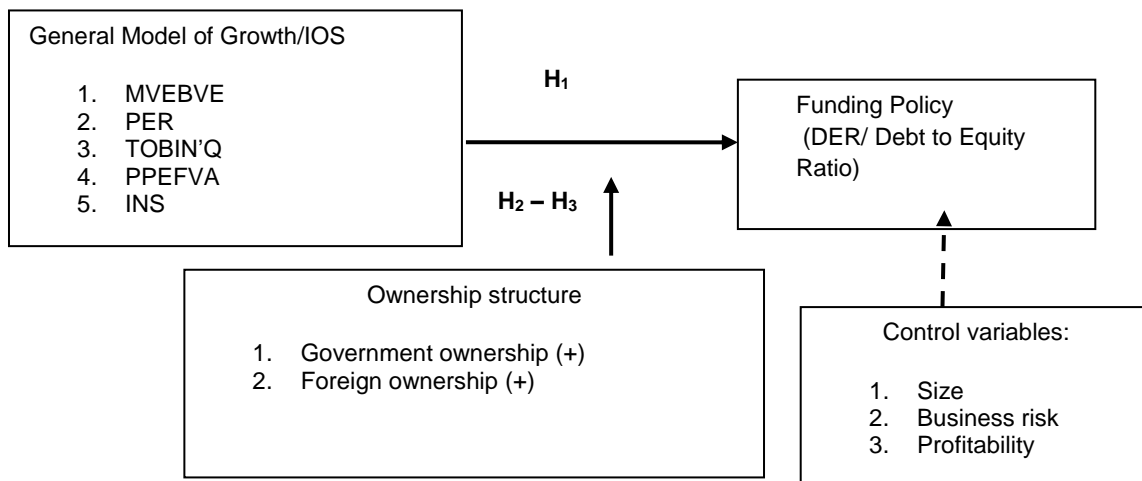


Figure 1 – Conceptual Framework

METHODS OF RESEARCH

Population and Sample

The population was all companies listed in Indonesian Stock Exchange (ISE) between 2008 and 2016. The sampling technique was purposive sampling. Three criteria for purposive sampling were a go-public and active company between 2008 and 2016, profitable company with positive equity during the observation, and company that can provide the required information. The source of data was annual financial report published in ISE; this report was obtained from Indonesian Capital Market Directory and annual report from 2008 to 2016.

Operational Definition

Sartono (2001) stated that funding policy refers to methods companies apply to use their external funding (debt) in order to minimize business risk companies should bear. Kallapur & Trombley (1999); Sartono (2001); Smith & Watts (1992) used the following formula to measure budget policy:

$$\text{DER /Debt to equity Ratio} = \text{Total Debt/Total Equity}$$

Investment Opportunity Set (IOS) can be measured based on several types of proxy. This study used 5 (five) kinds of proxy, namely (MVEBVE), Earnings to price ratios (PER),

Ratio of property, plant, and equipment to firm value of the assets (PPEFVA), Tobin's Q, and Investment to Net Sales (INS) ratio. Table 1 summarized how the IOS proxy was developed.

Table 1 – IOS Proxy

No	Proksi IOS	Measurement	Researchers
1	Market Value Equity to book value of equity (MVEBVE)	MVEBVE = [Number of shares x closing price of shares] : Total Equity]	(Abbott, 2001; Adam & Goyal, 2008; Adam & Goyal, 2003; Alnajjar & Riahi-belkaoui, 2001; Cahan & Hossain, 1996; Chung & Charoenwong, 1991; Collins & Kothari, 1989; Gaver & Gaver, 1993; Gul & Kealey, 1999; Hartono, 1999; Hossain et al., 2000; Jones & Sharma, 2001; Kallapur & Trombley, 1999; Mira & Ho, 2002; Sami, Heibatollah & Lam, 1999; Skinner, 1993; Smith & Watts, 1992)
2	Earnings to price ratios (PER)	PER = [Closing price per share] : Earning Price per Share (EPS)]	(Adam & Goyal, 2003; Alnajjar & Riahi-belkaoui, 2001; Cahan & Hossain, 1996; Chung & Charoenwong, 1991; Gaver & Gaver, 1993; Gul & Kealey, 1999; Hartono, 1999; Hossain et al., 2000; Jones & Sharma, 2001; Kallapur & Trombley, 1999; Sami, Heibatollah & Lam, 1999; Skinner, 1993; Smith & Watts, 1992)
3	Tobin's Q (TOBIN'Q)	Tobin's Q = {[Number of shares x closing price of shares] + Total debt + stocks] – Total current assets} / total assets.	(Chung & Charoenwong, 1991; Kallapur & Trombley, 1999; Skinner, 1993)
4	Ratio of property, plant, and equipment to firm value of the assets (PPEFVA)	[Total Asset-Total Equity+ Total share*Closing price of shares] divided by net fixed assets.	(Adam & Goyal, 2003; Jones & Sharma, 2001; Kallapur & Trombley, 1999; Sami, Heibatollah & Lam, 1999; Skinner, 1993)
5	Rasio Investment to Net Sales (INS)	INS = Investment/Net Sales	(Hartono, 1999; Kallapur & Trombley, 1999)

Government ownership was represented by dummy, between 0 and 1. 0 means that government did not have any share in a company while 1 means that a company is a government-owned company. Similar to government ownership, private ownership is also represented by dummy between 0 and 1. 0 means that foreign investor does not have any share in a company while 1 means that foreign investors owned the company.

Firm size, business risk and profitability are the control variables. Table 2 described operating definition of the control variables.

Table 2 – Operating definition of the Control Variables

No	Variable	Formula	Researchers
1	Firm size	Size = logarithm of total assets	(Alnajjar & Riahi-belkaoui, 2001; Pagalung, 2003)
2	Business risk	Business risk = STD (operating income/total asset)	Sartono (2001)
3	Profitability	Return on Assets (ROA)= EAT/ Total Asset or net income/total asset	(Alnajjar & Riahi-belkaoui, 2001; Pagalung, 2003)

Confirmatory Factor Analysis

Objective of factor analysis is to combine five sets of single proxy representing investment opportunity. It aims to define structure of matrix data and analyze correlation between a number of variables. The steps in factor analysis are KMO and Bartlett's Test of

Sphericity, Communalities, Extraction, and Rotation (Hair, Rolph E. Anderson, & Black, 1998).

Hypothesis Testing

The study used (Keasey & McGuinness, 1992; Keasey & Short, 1997)'s regression model for hypothesis testing. Panel data used in the regression model for the first hypothesis testing were as follows:

1. $DER_{it} = a + \beta_1 IOS_{it} + e_{it} \dots$ (equation 1)
2. $DER_{it} = a + \beta_1 IOS_{it} + \beta_2 Size_{it} + \beta_3 Business\ Risk + \beta_4 Profitability_{it} + e_{it} \dots$ (equation 2)

The following panel data were used in the regression model for the second and third hypothesis testing.

1. $DER_{it} = a + \beta_1 IOS_{it} + \beta_2 PUBLIC\ OWNERSHP_{it} + \beta_3 IOS_{it} * PUBLIC\ OWNERSHP_{it} + e_{it} \dots$ (equation 3)
2. $DER_{it} = a + \beta_1 IOS_{it} + \beta_2 FOREIGN\ OWNERSHP_{it} + \beta_3 IOS_{it} * FOREIGN\ OWNERSHP_{it} + e_{it} \dots$ (equation 4)
3. $DER_{it} = a + \beta_1 IOS_{it} + \beta_2 Size_{it} + \beta_3 Business\ Risk + \beta_4 Profitability_{it} + \beta_4 PUBLIC\ OWNERSHP_{it} + \beta_5 IOS_{it} * PUBLIC\ OWNERSHP_{it} + e_{it} \dots$ (equation 5)
4. $DER_{it} = a + \beta_1 IOS_{it} + \beta_2 Size_{it} + \beta_3 Business\ Risk + \beta_4 Profitability_{it} + \beta_4 FOREIGN\ OWNERSHP_{it} + \beta_5 IOS_{it} * FOREIGN\ OWNERSHP_{it} + e_{it} \dots$ (equation 6)

Panel Data Regression Model Testing

The study used three types of testing to select the most suitable technique for panel data regression estimation. The first was F-test to select between PLS/ Pooled Least Square (common) and Fixed Effect. The second was Langrange Multiplier (LM) test to select between PLS/Pooled Least Square (common) and Random Effect. The last one was to select between Fixed Effect and Random Effect for the Hausmann testing (Gujarati, 2012; Widarjono, 2009).

The total samples were 216 companies per year. The sample data showed that each company had different observation frequency and this phenomenon is the characteristics of imbalance panel data (Gujarati, 2012).

The study adapted (Hair, Rolph E. Anderson, & Black, 1998)'s four-step of factor analysis.

Based on Table 3, KMO was 0.501 and Bartlett's test was 831.194 with the significance level of 0.000. Since the scores were higher than 0.5 and the significance level was far lower than 0.05 ($0,000 < 0,05$), both the variables and samples were eligible for further analysis.

Table 3 – Factor Analysis Result

Factor Analysis	Score
KMO MSA	0.501
BTS Chi Square	831.194
df	28
Sig	0.000
Variable	MSA
MVEBVE	0.501
PER	0.520
TOBIN'Q	0.500
PPEFVA	0.479
INS	0.559

MVEBVE = Market Value Equity to Book Value Equity, PER = Price Earning Ratio, Tobin's Q (TOBIN'Q), PPEFVA = Ratio of property, plant, and equipment to firm value of the assets, INS = Rasi Investment to Net Sales ratio.

Communalities shown in table 4. Based on Table 4, MVEBVE had the highest communalities score and therefore, the variable was the most suitable one for representing IOS.

Table 4 – Communalities

	Initial	Extraction
MVEBVE	1.000	.807
PER	1.000	.001
TOBIN'Q	1.000	.008
PPEFVA	1.000	.002
INS	1.000	.014

MVEBVE = Market Value Equity to Book Value Equity, PER = Price Earning Ratio, Tobin's Q (TOBIN'Q), PPEFVA = Ratio of property, plant, and equipment to firm value of the assets, INS = Investment to Net Sales ratio

Extraction

With the criteria, Table 5 showed that factor extraction resulted in 4 factors to use in further analysis. Eigenvalues of factor 1 was 1.638 and its variance was 20.476%; eigenvalues of factor 2 was 1.194 and the variance was 14.921%, eigenvalues of factor 3 was 1.082 and the variance was 13.530%, and eigenvalues of factor 4 was 1.010 and the variance was 12.629%. Therefore, variance of the factors was 61.556% of total variance.

Table 5 – Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Square Loading		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.638	20.476	20.476	1.638	20.476	20.476
2	1.194	14.921	35.398			
3	1.082	13.530	48.927			
4	1.010	12.629	61.556			
5	.992	12.405	73.961			
6	.907	11.342	85.303			
7	.805	10.065	95.369			
8	.371	4.631	100.000			

Source: confirmatory factor analysis

Rotation

Table 6 showed that out of the five types of IOS proxy , MVEBVE was the one with the highest score.

Table 6 – Matrix Component Factor Analysis Result

	Component
	1
MVEBVE	.898
PER	-.038
TOBIN'Q	-.087
PPEFVA	-.045
INS	-.118

MVEBVE = Market Value Equity to Book Value Equity, PER = Price Earning Ratio, Tobin's Q (TOBIN'Q), PPEFVA = Ratio of property, plant, and equipment to firm value of the assets, INS = Investment to Net Sales ratio

A. First Hypothesis Testing. Influence of IOS towards Funding Policy

Based on the Chow testing, (shown in table 7) MVEBVE was significance but the Hausman testing showed that the variable was not significant. It means fixed effect was the most suitable technique. Based on the fixed effect, the score of MVEBVE was -0.154 and the significance level was 0.029, far lower than $\alpha(0.05)$. It suggested that the first hypothesis, IOS (MVEBVE) has negative influence towards funding policy (DER) can be accepted.

Table 7 – Influence of IOS (MVEBVE) towards DER

MVEBVE	
Chow	43.009*** (-2.557)
Hausmann	0.586 (-0.157)
Fixed Effect	-0.154 (-2.180)

Source: Regression analysis

B. Hypothesis 1. Influence of IOS and control variables towards DER

Based on Table 8, Chow Test (LM Test) and Hausmann Test suggested that the result was significant, which means that random effect was the most suitable technique. The influence of MVEBVE and the control variables towards DER showed that F statistics was 18.87 and the significance level was 0.00 or lower than α (0.05). It means the hypothesis that IOS (MVEBVE) and the control variables have significant influence towards DER can be accepted.

Table 8 – Influence of IOS and Control Variables towards DER

Variable	MVEBVE
Chow	1141.515***
Hausmann	24.928***
Random Effect	
Constant	0.708 (1.497)
LOG_SIZE	0.060 (3.346)
RISK	0.293 (1.028)
ROA_ROI	-0.031 (-6.809)
R Square	0.049
Adj R Square	0.047
F statistics	18.874
Significance	0.0000

Source: Regression analysis

C. Second and Third Hypothesis Testing: Influence of IOS (MVEBVE) and Ownership Structure towards Funding Policy (DER)

Table 9 showed that based on the random effect technique, F statistics of the influence of MVEBVE and government ownership towards DER was 7.88 with the significance of 0.00 or lower than α (0.05). It means IOS (MVEBVE) and government ownership simultaneously had significant influence towards DER. The hypothesis that government ownership strengthened the influence of IOS (MVEBVE) towards DER was also accepted.

On the other hand, F statistics of the influence of MVEBVE and foreign investor towards DER was 6.07 with the significance of 0.00, far lower than α (0.05). It suggested that IOS (MVEBVE) and foreign ownership simultaneously had significant influence towards DER. The third hypothesis that foreign ownership strengthened the influence of IOS (MVEBVE) towards DER can be accepted.

D. Fourth and Fifth Hypothesis Testing, Influence of IOS (MVEBVE), Control Variables and Ownership Structure towards Funding Policy

F statistics of the influence of IOS (MVEBVE), control variables and foreign ownership towards DER was 13.59 with the significance of 0.00 or lower than α (0.05). It means that IOS (MVEBVE), foreign ownership and control variables simultaneously had significant influence towards DER. In addition, the hypothesis that foreign ownership strengthened the

influence of IOS (MVEVBE) towards DER through the control variables can be accepted. It can be seen in the table 10.

Table 9 – Influence of IOS (MVEBVE) and Ownership Structure towards DER

	MVEBVE Government-owned	MVEBVE Foreign-Owned
Chow	43.379****	43.206***
Hausmann	26.062	24.006
Random Effect		
Constant	2.246*** (5.196)	2,330*** (5.383)
MVEBVE	-0.184*** (-2.633)	-0.183*** (-2.582)
Government/Public	0.502 (3.819)	
PMA		-0.092 (-1.022)
MVEBVE * Government	0.013** (2.434)	
MVEBVE * Foreign		0,032*** (3.213)
R Square	0.016	0.012
Adj R Square	0.014	0.010
F statistics	7.889	6.072
Significance	0.000	0.000

Source: Regression analysis

Table 10 – Influence of IOS, Control Variables and Ownership Structure towards Funding Policy

	MVEBVE Government-owned	MVEBVE Foreign-Owned
Chow	39.671***	39.702***
Hausmann	39.856***	39.887***
Random Effect		
Constant	0.794 (1.641)	0.899* (1.856)
MVEBVE	-0.042 (-0.560)	-0.039 (-0.515)
LOG_SIZE	0.055*** (2.852)	0.051*** (2.641)
RISK	0.238 (0.838)	0.219 (0.768)
ROA_ROI	-0.030*** (-6.502)	-0.030*** (-6.604)
Government/Public	0.312** (2.282)	
PMA		-0.022 (-0.245)
MVEBVE _Govt/Public	0.011** (2.012)	
MVEBVE _PMA		0.020* (1.870)
R Square	0.056	0.053
Adj R Square	0.052	0.049
F statistics	14.353	13.590
Significance	0.000	0.000

Source: Regression analysis

RESULTS AND DISCUSSION

The first hypothesis testing suggested that IOS (MVEBVE), either before or after the control variables were involved, had negative and significant influence towards DER. The finding is in accordance to (Barclay et al., 2006)'s contracting theory. It is also in line with the

prediction that large companies are relatively more stable and profitable and therefore, have higher efficiency and lower financial leverage (Chan and Chen, 1991)

The second hypothesis that government ownership strengthened the influence of IOS (MVEBVE) towards DER (prior to and after the control variables were involved) is **accepted**. Siallagan & Januarti (2014) stated that dominant government ownership have negative influence towards performance of companies. Government may disrupt policy companies have established to pursue their own interest. Shen & Lin (2009) reported that government or bureaucrats may emphasize on their social or political interests rather than fostering growth of companies. The result is lacking government control towards management, one responsible for running the company. La Porta, Lopez-de-Silanes, & Shleifer (1999) explained that when government became majority shareholders, it has negative influence towards performance. In order to achieve their interests, government may play a role in hiring and appointing managers (He & Kyaw, 2018).

The third hypothesis, foreign ownership strengthened the influence of IOS (MVEBVE) towards DER both prior to and after the control variables were involved was accepted. Being majority shareholders, foreign investors tend to hire foreigners as board of commissioners and board of directors. As the result, both foreign investors and management or board of commissioners and directors share the same principles, which is to foster growth of companies. It is in line with Bekaert & Harvey (2000) that foreign investors will put higher pressure on managers and monitor them closely as well as provide new investment and hire trained, professional managers.

Based on the findings, hypothesis 1 is consistent to the findings of the previous related studies (Abbott, 2001; Barclay et al., 2006; Gaver & Gaver, 1993, 1995; Gul & Kealey, 1999; Jones & Sharma, 2001; Kallapur & Trombley, 1999; Myers & Turnbull, 1977; Saputro, 2003; Smith & Watts, 1992; Watts & Zimmerman, 1990). However, it is conflicting to the findings of (Ardestani et al., 2013a; Chen & X, 2005; Hartono, 1999; Hikmah, 2004, 2008; Ho et al., 2004; Khanqah, Vahid and Ahmadnia, 2013; López-Iturriaga & Crisóstomo, 2007; Purnamasari, Kurniawati, & Silvi, 2009; Rosdini, 2011; Sami, Heibatollah & Lam, 1999; Tri Ratnawati, 2007)'s studies that IOS has positive influence towards funding policy.

Different research findings occurs due to management opportunism with the assumption that implementation of different accounting and funding policy is the result of manager's response of business contract (Watts & Zimmerman, 1990). Arifin (2003) predicted that the difference takes place due to different level of asymmetric information between US companies and Indonesian companies listed in ISE. Jaggi and Gul (1999) explained that relationship between cashflow and policy on debt in companies with low IOS is different from that in companies with high IOS. It is in accordance to Tarjo (2008) that there is a positive relationship between cash flow and debt in companies with low IOS. It means each managers will adjust investment and funding policy companies in different countries and economic situation apply to match their companies. As the result, the policies have different impact or outcome. Higher debt means higher risk for investors and as the consequence, the investors will demand higher profit (Nisa, Arfan, & Saputra, 2018). Therefore, future researchers should conduct similar studies with different variables, object, year and economic condition.

The second hypothesis testing showed that government ownership strengthened the influence of IOS (MVEBVE) towards DER both prior to and after the control variables were involved. It is in line with (La Porta et al., 1999; Shen & Lin, 2009; Siallagan & Januarti, 2014). He & Kyaw, (2018); La Porta et al., (1999); Siallagan & Januarti, (2014) stated that dominant government ownership has negative influence towards performance of company. Government may interfere management and force their interests. Another possibility is that the market in which government companies are operating is highly inefficient (due to monopoly) and the negative influence takes place in the form of increasing price or huge loan from the government (Guillaume, 2018).

Based on the agency theory on relationship between shareholders manager, government as controlling shareholder should conduct supervision or be able to control managers; however, in many occasions, government has other agendas but fostering

performance of company. Siallagan & Januarti (2014) stated that dominant government ownership have negative influence towards performance of companies. Government may disrupt policy companies have established to pursue their own interest. Shen & Lin (2009) reported that government or bureaucrats may emphasize on their social or political interests rather than fostering growth of companies. The result is lacking government control towards management of the companies

The third hypothesis testing suggested that foreign ownership strengthened the influence of IOS (MVEBVE) towards DER prior to and after the control variables were involved. It is consistent to (Al Farooque, Van Zijl, Dunstan, & Karim, 2007; Bekaert & Harvey, 2000)'s studies. It is expected that foreign investors improve corporate performance. Foreign investors are the ones who have the utmost concern towards implementation of good corporate governance (Fauzi, 2006; Simerly & Li, 2000).

Foreign investors will give higher pressure for managers, provide additional monitoring, provides higher amount of capitals and hire experienced managers who helps local companies they own to get access to international market reducing capital cost (Bekaert & Harvey, 2000). Therefore, professionals managers will generate higher profit since they are able to make profitable investment (Lee, Wang, Chiu, & Tien, 2018). Higher foreign investors will reduce debt companies have because the investment allows companies to get some funding. In addition, foreign investors allows company to appoint an independent CEO (Meng, Clements, & Padgett, 2018). Finally, foreign investors will apply their management system, technology and innovation, skills and marketing strategy to companies they make investment in order to foster growth of the companies.

CONCLUSION

The study showed that companies establish certain policy in order to increase their value. This policy affects implementation of the functions of funding requirement and funding; these can minimize risks companies should bear. It also influences total amount of return on investment (ROI); companies will ask for higher ROI based on funding they obtain from debt in order to get higher ROI for shareholders. The study also suggested that ideally government should supervise or control managers, but in fact government may put some delay in performance of companies because government is unable to run the companies effectively. Foreign investors help improving performance of companies because they put more pressure on managers, conduct a strict supervision and apply their management system, technology and investment, skills and marketing that foster growth of companies.

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