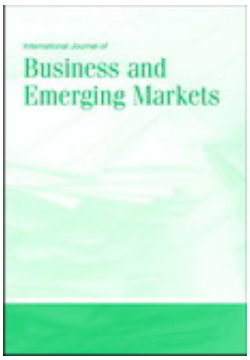

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How do political connection and intellectual capital affect the debt usage of majority shareholders? Evidence in Indonesia

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Abstract: This research intends to examine majority shareholder ownership's effect on debt moderated by political connection and intellectual capital. This study uses 747 firm-year observations of non-financial companies in Indonesia from 2018–2020. The finding shows that majority ownership has an inverted U-shape relationship on debt, but its effect is less significant in non-family firms. Political connection does not act as a moderator, while intellectual capital does only for family firms. Meanwhile, political connection and intellectual capital together alleviate majority ownership and debt relationship for both types of companies.

Keywords: majority shareholder ownership; debt; political connection; intellectual capital; Indonesia.

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1 Introduction

Most public firms in Indonesia are controlled by majority shareholders. In addition, Rusmin et al. (2011) show that percentage of Indonesian firms controlled by majority shareholders is 65.14%. It shows that firms in Indonesia have a concentrated ownership structure, similar to most Asian countries (Juanda, 2018). Majority shareholders own the majority of the company's shares and have control rights to direct the company's strategic and operational decisions (Ayunigtyas and Diyanti, 2017). These shareholders work as controlling shareholders. They have the authority to oversee the management so that management's actions align with the interests of shareholders. Therefore, high majority shareholders ownership could reduce agency conflict between shareholders and managers (Utama et al., 2017).

Meanwhile, the existence of majority shareholders could cause other agency conflicts, namely, conflicts between majority and minority shareholders (Kohar and Dewi, 2021). This conflict happens due to cash flow right leverage. Cash flow right leverage shows the divergence between control right and cash flow right possessed by majority and minority shareholders (Sanjaya, 2019). In this case, the entrenchment effect could exist in which majority shareholders use their control right for personal benefit. They could conduct expropriation toward minority shareholders as non-controlling shareholders. Expropriation is abusing the control to fulfil the interests of the majority shareholders to the detriment of the minority shareholders (Putri and Yulianto, 2020).

Capital structure decision is the proportion of debt financing over equity financing to finance the company (Rasheed et al., 2021). It is one of important financial decisions for the company (Apanisile and Olayiwola, 2019; Paramanantham et al., 2018). Jensen (1986) states that debt is an agency conflict control mechanism due to free cash flow (Khan et al., 2021). High free cash flow will provide opportunities for managers to overinvest (Yusup et al., 2022). They prefer to invest in unprofitable projects to pay dividends to shareholders (Jensen and Meckling, 1976). Debt will force the company to pay the interest and repay the principal. As a consequence, managers will use the excess cash wisely to be able to meet those obligations. Therefore, majority shareholders tend to instruct managers to use debt because debt can restrict manager behaviour to act based on majority shareholders' interest. Conversely, debt is also a tool to control majority shareholders' behaviour and not to use the company's excess cash for their best interest (Alwi, 2009; Mutamimah and Hartono, 2010). Therefore, majority shareholders could limit the use of debt to promote their interests.

Several empirical kinds of research on the relationship between majority ownership and debt have been carried out previously. Rossi and Cebula (2016) found U-shaped relationship between ownership concentration by majority ownership and debt. At a low level of majority ownership, majority ownership has a negative effect on debt levels while at a high level of majority ownership, majority ownership has a positive effect on the level of debt. The results of this study contradict those of de la Bruslerie and Latrous (2012), Lo et al. (2016) and Mbanyele (2020). They stated that the relationship of majority ownership to debt is in the form of an inverted U-shaped, where low majority ownership affects debt positively while high majority ownership affects debt negatively.

On the other hand, Karpavicius and Yu (2017) state that majority ownership as agency conflict active mechanism substitutes the debt as agency conflict passive mechanism. The existence of an active mechanism will reduce the use of debt. This finding is in line with Farooq (2015), Hadianto (2015) and Paramanantham et al. (2018)

that found that majority ownership has a negative effect on the company's debt level. Inconsistencies of previous research findings related to the effect of majority shareholders ownership toward debt make the relationship between these two variables interesting to be explored further in Indonesia.

Debt is an external resource that the company needs to support its growth. *Resource dependence theory* (*RDT*) explains that a company has to establish external connections to obtain the necessary external resources (Dieleman and Widjaja, 2019; Pfeffer and Salancik, 1978). Political connection is one of the external connections the company can make to obtain external resources. Political connection is the relationship between the company and the political parties. This political relationship occurs when one of the majority shareholders, directors or commissioners has served or is currently serving as a minister or a part of central government, head of regional government, members of parliament, members of political parties and members of the military or has family relations with these government parties (Habib et al., 2017). Political connection becomes an important issue in developing countries with low property rights protection, including Indonesia (Pratama, 2019). Past research conducted by Ling et al. (2016) and Shen et al. (2014) shows that political connection enables the companies to obtain debt and lead to higher agency conflict. However, Ahmed and McMillan (2021) found that political connection negatively affected debt.

Besides political connection as external resources, intellectual capital as company's internal resources also can affect debt. Intellectual capital is the company's valuable knowledge assets that can drive innovation and technological development and create value (Sofian et al., 2020; Subaida et al., 2017). Companies with high intellectual capital tend to use debt more optimally, thus reducing agency conflict (Wijaya et al., 2016).

Based on previous gaps and phenomena, this study examined the effect of majority shareholder ownership on the company's debt moderated by political connection and intellectual capital in non-financial companies listed on the Indonesia Stock Exchange over the 2018–2020 period within the agency theory framework. Both political connection and intellectual capital are still rarely used to examine the effect of majority shareholder ownership on debt. In addition, most previous research focused only on family firms, as 66.45% of Indonesian firms are family firms (Rusmin et al., 2011). Therefore, this research intends to fill that gap by analysing family and non-family firms.

2 Literature review and hypothesis testing

2.1 Agency theory

Agency theory refers to agency relationship that occurs between principal (shareholder) and the agent (manager). This agency relationship occurs because of the separation between shareholder ownership rights and company management rights by managers (Jensen and Meckling, 1976; Panda and Leepsa, 2017). Both shareholders and managers have their own interests and they try to fulfil their own interests. Shareholders expect that managers will manage the company to maximise shareholder wealth. In fact, managers often make decisions for their personal gain that is detrimental to shareholders. Excess internal fund is the source of agency conflict (Jensen, 1986). The internal fund should fund profitable investments while the rest should be distributed as dividends. However, paying dividends causes managers to have less control of company resources, reducing

their performance. Therefore, managers try to restrict dividend payments and invest in some unprofitable investment projects (overinvestment).

Agency conflict creates agency costs that have to be borne by both the principal and agent to resolve the conflict. Two passive mechanisms to reduce agency conflicts are debt and dividends (Jensen and Meckling, 1976). Debt forces the managers to use the internal funds to pay interest, thereby reducing the excess cash flow used to invest in unfavourable projects. Dividend payment will also reduce internal funds, thereby minimising the moral hazard of managers.

Agency conflict could be classified into two types, agency conflict type I and type II (Lim and Yen, 2011; Pedersen and Thomsen, 2003). Agency conflict type I is conflict of interest between shareholders and managers. This conflict occurs in companies with dispersed ownership structures such as the USA. In contrast, agency conflict type II is the conflict of interest between majority and minority shareholders. This conflict occurs in Asian companies with a concentrated ownership structure in which the majority shareholders could control the managers to fulfil their interests.

2.2 Resource dependency theory

Resource dependency theory states that an organisation is an open system where its performance will depend on the ability to obtain the necessary resources from external parties (Pfeffer and Salancik, 1978; Zona et al., 2015). The companies with more resources will have more power than those with fewer resources. Pfeffer and Salancik (1978) stated three critical applications of resource dependency theory (RDT) in the company. First, companies must interact with many parties from the internal and external environment, such as consumers, suppliers, competitors, government and management. Second, the company has a strategy to treat these parties well to obtain the necessary resources. Third, companies must cooperate with relevant parties to increase their power (Sutrisno and Fella, 2020). Political connection is one of the company's external interactions to obtain the resources needed by the company.

2.3 Majority shareholder ownership and debt

Majority shareholder ownership is one agency conflict control mechanism between shareholders and managers (Jensen and Meckling, 1976). They will try to get managers to act under their interest regardless of minority shareholders' interest for their personal benefit. The control hypothesis for debt creation shows that majority shareholders will also control the manager behaviour using debt (Jensen, 1986). Debt will make the company have an obligation to pay so managers will be more careful in deciding to make the company not go bankrupt. Majority shareholders also prefer to use debt over equity to increase company funding because they do not need to share ownership and control rights with new shareholders. Therefore, the higher the level of majority shareholder ownership, the higher debt taken by the company.

As majority shareholder ownership is higher, the control rights owned by the majority shareholder will be higher. When the concentration of ownership is high, the majority shareholder can easily control the manager. They can immediately fire managers who do not act in their interests because they have high votes. This majority shareholders effect causes the role of using debt to control managers to be reduced. In addition, there will be

high bankruptcy risk of using debt too high. Therefore, at a high ownership concentration, the higher majority ownership is, the lower the debt use level will be.

Above explanation shows a nonlinear effect (inverted U-shaped) between ownership concentration by majority shareholders and debt levels. Initially, majority shareholder ownership positively affects debt until a certain point. After that, majority shareholder ownership negatively affects debt (de la Bruslerie and Latrous, 2012; Rossi and Cebula, 2016). Based on the previous explanation, the following hypothesis is formulated:

Hypothesis 1 The majority shareholder ownership has a nonlinear effect on the company's debt.

2.4 Political connection as moderation of majority shareholder ownership and debt

Research dependency theory states that companies can obtain greater resources through interaction with external parties. Political connection is an external interaction that helps companies to obtain external resources. The companies may gain access to debt easier, especially from state banks or get a lower interest rate or cost of debt (Harjan et al., 2019; Junus et al., 2022; Tee, 2019). This makes the existence of political connections able to increase the level of corporate debt (Saeed et al., 2015). Therefore, political connections will amplify the positive effect of majority ownership toward debt at a low level of majority ownership. On the contrary, at a high concentration of ownership by majority shareholders, political connections will alleviate the negative effect of majority ownership and debt levels due to the company's access to debt. Based on the previous explanation, the following hypothesis is formulated:

Hypothesis 2 Political connection moderates the relationship between majority shareholder ownership and debt.

2.5 Intellectual capital as moderation of majority shareholder ownership and debt

Intellectual capital is a company's asset that can add value to the company. To have higher intellectual capital, the company needs to spend more money on it. Therefore, intellectual capital can increase debt as a financing source (Liu and Wong, 2009; Wiagustini et al., 2019). However, the company with higher intellectual capital will use the debt more optimally to minimise agency conflict and increase the company's value (Wijaya et al., 2016). The company uses debt due to tax benefits to finance its intellectual capital investment. After the debt reaches a certain point, the company will try to reduce the debt due to bankruptcy risk (D'Amato, 2021). Therefore, intellectual capital will amplify the positive effect of majority shareholders and debt at a low level of majority ownership and amplify the negative effect of those at a high level of majority ownership. Based on the previous explanation, the following hypothesis is formulated:

Hypothesis 3 Intellectual capital moderates the relationship between majority shareholder ownership and debt.

3 Data and research method

3.1 Data

This study uses all companies on the Indonesian Stock Exchange (IDX) from 2018 to 2020 as the population. Financial companies were excluded because they have different characteristics from other types of business. The sampling method used is purposive sampling, in which companies with no complete data are excluded from the research. The final sample consists of 747 firm-year observations after winsorising extreme values. This study uses panel data obtained from the firm's annual report and annual financial report from the official site of Indonesia Stock Exchange.

The dependent variable is debt, measured by debt to equity ratio (DER). The primary determinant variable is majority shareholder ownership, measured by the percentage of the largest shareholder ownership in a company. Political connection and intellectual capital work as moderation in this study. The operational variable definition and measurement used in this research can be seen in Table 1.

Table 1 Operational variable definition

Variable types	*Variable name*	*Variable description*	*Measurement description*
Dependent variable	Debt (DER_{it})	Firm's ability to pay off debt	DER: total debt divided by total equity (Farooq, 2015; Rossi and Cebula, 2016)
Independent variable	Majority shareholder ownership (MSO_{it})	The largest shareholder of the company	Percentage of shares of the largest shareholders (Paramanantham et al., 2018)
Moderating variable	Political connection (PC_{it})	Direct or indirect relationship between shareholders, board of directors, board of commissioners and political parties (government executives, political parties and military)	Dummy variable that is equal to 1 if a firm has political connection and 0 otherwise (Zainudin and Khaw, 2020)
	Intellectual capital (IC_{it})	Intangible assets that can enhance the firm value (Barus and Siregar, 2014)	VAIC: the sum of human capital efficiency (HCE), structural capital efficiency (SCE) and capital employed efficiency (CEE) (Mohammad et al., 2018).
			Value added (VA): total sales minus expenses, excluding human resource expense
			HCE: value added divided by salary expense
			SCE: the difference between value-added and human resource expense divided by value-added
			CEE: value added divided by total equity

Table 1 Operational variable definition (continued)

Variable types	*Variable name*	*Variable description*	*Measurement description*
Control variables	Age (AGE_{it})	Length of company goes public	The difference between the year in the research period and the year when the company goes public (Kieschnick and Moussawi, 2018)
	Sales growth (SGR_{it})	The increase in sales from year to year	Increase in sales from the previous year compared to previous sales (Vintila and Ghergina, 2014)
	Profitability (ROA_{it})	The ability of the firm to generate profit	ROA: total net income divided by total assets (Hadianto, 2015)

3.2 Regression model

As de la Bruslerie and Latrous (2012) and Rossi and Cebula (2016) mentioned, the relationship between majority shareholders and debt is nonlinear, so we use a square of majority shareholders to account that nonlinear relationship. Therefore, the regression model to test the hypothesis is formulated as follows:

$$DER_{it} = \alpha_{11} + \beta_{12} MSO_{it} + \beta_{13} MSO_{it}^2 + \beta_{14} SGR_{it} + \beta_{15} ROA_{it} + e_{it} \tag{1}$$

$$\begin{aligned} DER_{it} = {} & \alpha_{21} + \beta_{22} MSO_{it} + \beta_{23} MSO_{it}^2 + \beta_{24} PC_{it} + \beta_{25} MSO_{it} \times PC_{it} \\ & + \beta_{26} MSO_{it}^2 \times PC_{it} + \beta_{27} AGE_{it} + \beta_{28} SGR_{it} + \beta_{29} ROA_{it} + e_{it} \end{aligned} \tag{2}$$

$$\begin{aligned} DER_{it} = {} & \alpha_{31} + \beta_{32} MSO_{it} + \beta_{33} MSO_{it}^2 + \beta_{34} IC_{it} + \beta_{35} MSO_{it} \times IC_{it} \\ & + \beta_{36} MSO_{it}^2 \times IC_{it} + \beta_{37} AGE_{it} + \beta_{38} SGR_{it} + \beta_{39} ROA_{it} + e_{it} \end{aligned} \tag{3}$$

$$\begin{aligned} DER_{it} = {} & \alpha_{41} + \beta_{42} MSO_{it} + \beta_{43} MSO_{it}^2 + \beta_{44} PC_{it} + \beta_{45} MSO_{it} \times PC_{it} \\ & + \beta_{46} MSO_{it}^2 \times PC_{it} + \beta_{47} IC_{it} + \beta_{48} MSO_{it} \times IC_{it} + \beta_{49} MSO_{it}^2 \times IC_{it} \\ & + \beta_{410} AGE_{it} + \beta_{411} SGR_{it} + \beta_{412} ROA_{it} + e_{it} \end{aligned} \tag{4}$$

The regression models are run three times: for full samples, for family firms only and for non-family firms to uncover different characteristics between family and non-family firms in Indonesia. A firm is classified as family firm when the founder or its descendants (either by blood or through marriage):

1 have a minimum of 10% of shares directly or indirectly through another family firm

2 some family members hold position as board (Harymawan et al., 2019; Motylska-Kuzma, 2017; Venusita and Agustia, 2021; Zhou et al., 2017).

The data is obtained from the annual report since Indonesia Financial Service Authority obliges public firms to disclose the relationship between directors and commissioners within their annual report (Harymawan et al., 2019). Furthermore, we rechecked any affiliated associations found on the company's website to confirm the relationship. Fixed

effect model could not be conducted since political connection as main variable is time-invariant. Therefore, this research uses random effect model to test the hypothesis.

4 Result and discussion

4.1 Descriptive statistics

Table 2 lists descriptive statistics of all variables used in this study. Family firm dominates 53.41% of Indonesian company, while non-family firm is 46.59%. This finding is consistent with Setiawan et al. (2016) and Rusmin et al. (2011), showing that family firms dominate companies in Indonesia. The mean value of DER is 107.41%, 104.78% for family firms and 110.44% for non-family firms. This value indicates that Indonesian companies, both family and non-family firms, prefer using more debt than equity to raise the capital. This result is aligned to Bloomberg data showing that in 2020, the five biggest Indonesian banks experienced tight liquidity and the volume of overseas bonds is doubled. The average majority shareholder ownership is 53.25%, close to the median (54.03%). It proves that ownership structure of companies in Indonesia is highly concentrated; on average, the company is controlled by 53.25% single shareholder. In addition, the average majority shareholder ownership for family and non-family firms is more than 50%.

The mean value of political connection is 44.58% implying that almost half of Indonesian company is politically connected. However, family firm political connections are 12.44% higher than non-family firms. Intellectual capital, proxied by VAIC, has positive average (1.8667). The higher the VAIC, the more favorable the Indonesian company's ability to create new value through intangible resources (Fijalkowska, 2014). The control variables are age, sales growth, and return on assets (ROA). The mean of the company's age listed on Indonesian Stock Exchange is 18 years. The mean of sales growth and return on assets (ROA), respectively are 4.09% and 1.13%.

4.2 Hypothesis testing and discussion

This section reports the result of the effect of majority shareholders on debt. This research uses panel data regression since it can consider individual heterogeneity and helps researchers avoid omitted variable cases (Gujarati and Porter, 2009; Studenmund and Johnson, 2017). Random effect as panel data regression is used to test the hypothesis.

Table 3 shows that majority shareholder ownership has a nonlinear relationship (inverted U-shape) on debt for full samples, family firms and non-family firms. The majority shareholder ownership (MSO) coefficient is positive while the square of majority shareholder ownership coefficient is negative. It confirms that majority shareholder ownership positively affects debt until it reaches an optimal value of debt, then it has a negative effect. This result is in line with Lo et al. (2016) and supports the first hypothesis. The majority shareholders prefer using debt to control the manager's behaviour to align with the majority shareholder's interest. After it reaches its optimal point, the debt is reduced due to bankruptcy risk. Higher debt will increase the company's obligation and financial distress may emerge if the company cannot fulfil its obligation.

Table 2 Descriptive statistics

Statistics	*Full sample*					*Family firms*					*Non-family firms*					*Mean difference fam vs. non-fam*
	Mean	*Median*	*Max.*	*Min.*	*Std. dev.*	*Mean*	*Median*	*Max.*	*Min.*	*Std. dev.*	*Mean*	*Median*	*Max.*	*Min.*	*Std. dev.*	
DER	1.0741	0.9003	4.8396	–6.2757	0.9598	1.0478	0.9286	4.5708	–6.2757	0.9718	1.1044	0.8720	4.8396	–1.3856	0.9463	–0.0566
MSO	0.5325	0.5403	0.9755	0.0611	0.2141	0.5095	0.5118	0.9755	0.0913	0.2208	0.5589	0.5712	0.9631	0.0611	0.2032	–0.0494
PC	0.4458	0.0000	1.0000	0.0000	0.4974	0.5038	1.0000	1.0000	0.0000	0.5006	0.3793	0.0000	1.0000	0.0000	0.4859	0.1244
IC	1.8667	2.0015	19.5210	–22.6754	3.7059	1.8140	2.1294	16.9344	–22.6754	3.7854	1.9272	1.8911	19.5210	–20.1964	3.6170	–0.1132
AGE	17.9759	18.0000	40.0000	2.0000	9.1458	18.3985	19.0000	38.0000	2.0000	8.8269	17.4914	17.0000	40.0000	2.0000	9.4879	0.9071
SGR	0.0409	0.0154	8.2049	–0.9868	0.5432	0.0144	0.0068	3.6949	–0.8412	0.3722	0.0713	0.0261	8.2049	–0.9868	0.6883	–0.0569
ROA	0.0113	0.0213	0.9210	–4.7971	0.2714	0.0265	0.0268	0.6066	–1.1210	0.1105	–0.0060	0.0176	0.9210	–4.7971	0.3792	0.0325
N			747					399					348			-
Percentage			100%					53.41%					46.59%			-

Notes: DER – debt to equity ratio; MS – majority shareholders, percentage of shares of the largest shareholders; IC – intellectual capital; PC – political connection, 1 if company has political relationship; AGE – length the company goes public in year; SGR – sales growth; ROA – return on assets.

Table 3 Debt to equity ratio (DER) regression

	Full samples				*Family firms*				*Non-family firms*			
	(1)	*(2)*	*(3)*	*(4)*	*(1)*	*(2)*	*(3)*	*(4)*	*(1)*	*(2)*	*(3)*	*(4)*
Constant	–0.0517	–0.3337	–0.2545	–0.4061	–0.0284	–0.4867	–0.5384	–0.8879	0.2668	0.1283	0.1393	0.0498
	(0.8322)	(0.2619)	(0.3509)	(0.1719)	(0.9286)	(0.2499)	(0.1356)	(0.0346)	(0.4673)	(0.771)	(0.7262)	(0.9109)
MSO	4.7342***	4.7457***	5.0803***	4.9199***	4.7646***	5.1946***	6.3401***	6.6641***	3.2809**	3.0507*	3.7763***	3.4711**
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0003)	(0.0002)	(0.0000)	(0.0000)	(0.0173)	(0.0609)	(0.0067)	(0.0354)
MSO^2	–4.2560***	–4.2303***	–4.4237***	–4.3151***	–4.5021***	–4.6486***	–5.7200***	–5.7793***	–2.8286**	–2.9629*	–3.5231***	–3.4722**
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0004)	(0.0003)	(0.0000)	(0.0000)	(0.0239)	(0.0512)	(0.0061)	(0.0243)
PC		0.4313		0.3527		0.5545		0.585		0.2888		0.4426
		(0.1185)		(0.2029)		(0.1281)		(0.1002)		(0.7506)		(0.6434)
MSO × PC		–0.0500		0.0856		–0.3559		–0.4501		–0.1509		–0.3314
		(0.9184)		(0.8611)		(0.5904)		(0.4854)		(0.9623)		(0.9223)
MSO^2 × PC		0.0036		–0.0066		0.017		0.0169		0.8195		0.6891
		(0.8646)		(0.7684)		(0.5561)		(0.5595)		(0.7678)		(0.8164)
IC			0.0487***	0.0471***			0.0781***	0.0769***			–0.0485	–0.0517
			(0.0019)	(0.0027)			(0.0007)	(0.0008)			(0.3822)	(0.3830)
MSO × IC			–0.0899***	–0.0874***			–0.1788***	–0.1765***			0.079	0.092
			(0.0020)	(0.0027)			(0.0000)	(0.0000)			(0.7087)	(0.6842)
MSO^2 × IC			0.0045***	0.0051**			0.0084***	0.0089***			0.0345	0.0197
			(0.0009)	(0.0253)			(0.0000)	(0.0006)			(0.8533)	(0.9215)
AGE		0.0047	0.0037	0.0051		0.0046	0.0045	0.0056		0.0069	0.0041	0.0071
		(0.4184)	(0.5285)	(0.3709)		(0.5819)	(0.5879)	(0.4983)		(0.3921)	(0.6095)	(0.383)
SGR	0.1070***	0.1076***	0.0987***	0.0972***	0.1879**	0.1878***	0.1353*	0.1323*	0.0576*	0.0536	0.0615*	0.0575*
	(0.0026)	(0.0025)	(0.0054)	(0.0062)	(0.0156)	(0.0158)	(0.0750)	(0.0800)	(0.0878)	(0.1187)	(0.0672)	(0.0916)
ROA	0.1861*	0.1734*	0.2426**	0.2297**	1.2682***	1.2534***	1.4444***	1.4228***	0.0275	0.0106	–0.1364	–0.1379
	(0.0644)	(0.0834)	(0.0300)	(0.0393)	(0.0002)	(0.0002)	(0.0003)	(0.0003)	(0.7577)	(0.9057)	(0.2404)	(0.2414)
N obs.	747	747	747	747	399	399	399	399	348	348	348	348
Adjusted R-square	0.0419	0.0560	0.0619	0.0643	0.0828	0.0905	0.1275	0.1322	0.0118	0.0294	0.0245	0.0428
F-statistic	9.1505***	6.5347***	0.0518***	5.6602***	9.9780***	5.9475***	8.2720***	6.5101***	1.9806*	2.3147**	2.0891**	2.4102***
Prob (F-statistic)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0970	0.0199	0.0363	0.0068

Notes: Dependent variable is debt-to-equity ratio (DER). See Table 1 for description of variables. ***, **, and * indicate significance at the 1%, 5% and 10% levels respectively.

Interestingly, the effect of majority shareholder ownership on debt is more significant in family firms than in non-family firms in Indonesia. Family shareholders in Indonesia are more loyal and have more sense of belonging (Venusita and Agustia, 2021). Therefore, they prefer using debt to equity because they do not need to share the profit and control rights to the new shareholders. Moreover, debt will help family shareholders achieve their goals by limiting manager behaviour. Due to that higher sense of belonging, the company will minimise bankruptcy risk by using less debt when the debt has achieved optimal level. In addition, Indonesia is a country that implements civil law system. Family firms in civil law countries have more significant debt than in common law countries (Lo et al., 2016).

Table 3 also presents the interaction result of political connection and intellectual capital in the relationship of majority shareholder ownership on debt. Those tables confirm that political connection is not significant on debt for full samples, family and non-family firms. This result contradicts resource dependency theory stating that a company can obtain resources by interacting with external parties such as politicians. Moreover, political connection does not moderate the relationship between majority shareholder ownership and debt. Therefore, the second hypothesis is not empirically supported.

This insignificance may happen because majority shareholder ownership in Indonesia is very high, more than 50% in average. That high control owned by majority shareholders affects percentage of debt owed by the company very significantly; thus the moderation effect of political connection does not appear. Politically connected companies will be supervised by political parties or government since they have to accommodate several government policies that can burden the firms (Selin et al., 2022). That external supervision will reduce the control of majority shareholders. Abiprayu (2021) also added that political connection presented a negative impact for the companies in Indonesia. Therefore, political connection does not affect debt and moderate the effect of majority shareholders toward debt.

Table 3 also shows that intellectual capital positively affects debt for full samples and family firms. This result demonstrates that the higher intellectual capital the company owns, the higher debt the company has. The existence of intellectual capital could reduce agency problems (Wijaya et al., 2016). Meanwhile, investing in intellectual capital needs larger money. Pecking order theory states companies prefer taking internal financing first. For external financing, the company prefers using debt first to equity because it has lower cost of capital (Myers, 1984). Therefore, based on pecking order theory, higher intellectual capital leads to higher money needed, which causes higher debt. In addition, intellectual capital moderates the effect of majority shareholder ownership on debt at 1% level for full samples and family firms. Hence, the third hypothesis is accepted for full samples and family firms. Nonetheless, the result suggests that intellectual capital alleviates the relationship between majority shareholders and debt. This indicates that intellectual capital owned by management could mitigate the majority shareholder to issue debt based on their interest so expropriation could be minimised.

Meanwhile, intellectual capital is not significant on debt for non-family firms. It may happen because professionals lead non-family firms with different characteristics, backgrounds and perspectives. The goal unification between managers may affect the use of debt more than the existence of intellectual capital. Further, intellectual capital also does not moderate the relationship of majority shareholder ownership to debt for non-family firms. Hence, the third hypothesis is rejected for non-family firms.

Table 4 Interaction of political connection and intellectual capital together

	DER		
	Full samples	*Family firms*	*Non-family*
Constant	–0.2663 (0.3588)	–0.5989 (0.1322)	0.0649 (0.8838)
MSO	4.241*** (0.0000)	5.2709*** (0.0001)	3.3677 (0.0409)
MSO^2	–3.7189*** (0.0000)	–4.6072*** (0.0001)	–3.3468 (0.0299)
PC	0.6439** (0.0198)	0.8097** (0.0178)	0.328 (0.7354)
MSO × PC	–0.3121 (0.5225)	–0.6114 (0.3212)	0.9688 (0.7839)
MSO^2 × PC	0.0101 (0.6478)	0.0232 (0.3992)	–1.0497 (0.7430)
IC	0.0610*** (0.0036)	0.0384 (0.1239)	–0.0605 (0.3203)
MSO × IC	–0.5475*** (0.0000)	–0.6485*** (0.0000)	0.1853 (0.4400)
MSO^2 × IC	0.6327*** (0.0000)	0.8378*** (0.0000)	–0.0918 (0.6668)
MSO × PC × IC	–0.4596*** (0.0000)	–0.6263*** (0.0000)	–0.2236* (0.0504)
MSO^2 × PC × IC	0.6303*** (0.0000)	0.8383*** (0.0000)	0.3409* (0.0533)
AGE	0.0041 (0.4756)	0.0039 (0.6234)	0.0067 (0.4103)
SGR	0.0830** (0.0140)	0.0554 (0.4247)	0.0599 (0.0784)
ROA	0.3456*** (0.0021)	1.2353*** (0.0008)	–0.1008 (0.4027)
N obs.	747	399	348
Adjusted R-square	0.1287	0.2623	0.0479
F-statistic	9.4788***	11.8836***	2.3428***
Prob (F-statistic)	0.0000	0.0000	0.0053

Notes: Dependent variable is debt-to-equity ratio (DER). See Table 1 for description of variables. ***, **, and * indicate significance at the 1%, 5% and 10% levels respectively.

Table 5 Robustness test with size as control variable

	Full samples				*Family firms*				*Non-family firms*			
	(1)	*(2)*	*(3)*	*(4)*	*(1)*	*(2)*	*(3)*	*(4)*	*(1)*	*(2)*	*(3)*	*(4)*
Constant	–2.045***	–2.0994***	–2.2982***	–2.2012***	–1.9406***	–2.1599***	–2.6038***	–2.6913	–1.9451***	–2.2151***	–2.2074***	–2.2827***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0001)	(0.0001)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
MSO	3.9903***	4.0321***	4.3628***	4.2297***	4.4688***	4.8751***	6.1359***	6.4614***	0.93509	1.7004	1.6602	2.1528
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0004)	(0.0002)	(0.0000)	(0.0000)	(0.4413)	(0.2216)	(0.1670)	(0.1284)
MSO^2	–3.4366***	–3.5047***	–3.6169***	–3.6011***	–4.0366***	–4.2092***	–5.3181***	–5.4272***	–0.8428	–1.8230	–1.6879	–2.3494*
	(0.0001)	(0.0000)	(0.0000)	(0.0000)	(0.0008)	(0.0005)	(0.0000)	(0.0000)	(0.4469)	(0.1673)	(0.1294)	(0.0805)
PC		0.0056		–0.0823		0.2884		0.3110		–0.0271		0.1099
		(0.9835)		(0.7601)		(0.4141)		(0.3674)		(0.9730)		(0.8957)
MSO × PC		0.1290		0.2735		–0.3182		–0.4270		–1.1616		–1.2658
		(0.7803)		(0.5548)		(0.6130)		(0.4868)		(0.6739)		(0.6661)
MSO^2 × PC		–0.0032		–0.0131		0.0162		0.0174		1.9461		1.7511
		(0.8727)		(0.5313)		(0.5545)		(0.5262)		(0.4161)		(0.4937)
IC			0.0481***	0.0487***			0.0792***	0.0788***			–0.032	–0.0424
			(0.0005)	(0.0000)			(0.0002)	(0.0002)			(0.4844)	(0.3830)
MSO × IC			–0.0928***	–0.0937***			–0.1837***	–0.1835***			0.0193	0.065
			(0.0003)	(0.0003)			(0.0000)	(0.0000)			(0.9115)	(0.7256)
MSO^2 × IC			0.0048***	0.0051**			0.0088***	0.0091***			0.0777	0.033
			(0.0001)	(0.0105)			(0.0000)	(0.0001)			(0.6121)	(0.8401)
SIZE	0.5975***	0.5822***	0.6064***	0.5893***	0.5234***	0.5026***	0.5605***	0.5315***	0.82899***	0.8380***	0.8242***	0.8313***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
AGE		0.0039	0.0043	0.0045		0.0035***	0.0040***	0.0045***		0.0083	0.0085	0.0086
		(0.4724)	(0.4338)	(0.4153)		(0.6647)	(0.6175)	(0.5730)		(0.2746)	(0.2570)	(0.2609)
SGR	0.0964***	0.0984***	0.0889***	0.0879***	0.1807**	0.1827**	0.1261**	0.1257**	0.03781	0.0370	0.0461	0.0410
	(0.0022)	(0.0019)	(0.0047)	(0.0053)	(0.0116)	(0.0112)	(0.0710)	(0.0703)	(0.1765)	(0.1863)	(0.0943)	(0.1402)
ROA	0.0286	0.0286	0.0991	0.0998	1.0615***	1.0622***	1.2538***	1.2578***	–0.1568**	–0.1655**	–0.3064***	–0.2964***
	(0.7555)	(0.7562)	(0.3268)	(0.3242)	(0.0007)	(0.0007)	(0.0006)	(0.0005)	(0.0416)	(0.0313)	(0.0018)	(0.0027)
N obs.	747	747	747	747	399	399	399	399	348	348	348	348
Adjusted R-square	0.1089	0.1074	0.1206	0.1177	0.1285	0.1266	0.1789	0.1743	0.1305	0.1275	0.1447	0.1400
F-statistic	19.2275***	10.9785***	12.3676***	9.2930***	12.7393***	7.4115***	10.6369***	7.9992***	11.1451***	6.6336***	7.5252***	5.7071***
Prob (F-statistic)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Notes: Dependent variable is debt-to-equity ratio (DER). See Table 1 for description of variables. SIZE is calculated from natural logarithm of total assets. ***, **, and * indicate significance at the 1%, 5% and 10% levels respectively.

4.3 Further investigation

This study investigates the interaction effect of political connection, intellectual capital and majority shareholder ownership together to debt. Table 4 portrays those regression results for full sample, family and non-family firms. The result shows that political connection and intellectual capital together alleviate the effect of majority shareholder ownership on debt at 1% level for full sample and family firms while at 10% level for non-family firms. Political connection is a pure moderator when interacting with intellectual capital since its independent effect on debt is insignificant.

Inverted U-shaped relationship between majority shareholder ownership and debt occurs because majority shareholders intend to achieve their own goal that may expropriate minority shareholders. They want to increase debt to control managers with less control and reduce debt to minimise bankruptcy risk when they have more control. The alleviation effect of political connection and intellectual capital together could reduce expropriation conducted by majority shareholders. Political parties may role as third-party that also supervise the company, while intellectual capital causes management to be more sensitive to the abusive act of majority shareholders.

4.4 Robustness test

This study undertakes a robustness check to ensure the consistency of our results. We add firm size as control variable for all models because firm size is empirically found significant to corporate leverage (Ezeoha, 2008; Kurshev and Strebulaev, 2015). Firm size is calculated from the natural logarithm of total assets (Appiah et al., 2020; Nhung et al., 2021). Table 5 shows the results remained unchanged concerning our main variables and firm size is consistently positive and significant to debt. Majority shareholder ownership affects debt but its effect on non-family firm is less significant.

5 Conclusions

This research examines the effect of majority shareholder ownership on debt as Rusmin et al. (2011) show that majority shareholders control 65.14% of Indonesian firms. Our empirical research shows that majority shareholder ownership has an inverted U-shape relationship on debt. When majority shareholder ownership is low, majority shareholder ownership affects debt positively since the majority shareholders have less power to control managers. However, when majority shareholder ownership is high, it negatively affects debt to minimise bankruptcy risk. However, its effect on non-family firms is less significant than on family firms.

This research also finds that political connection does not moderate the effect of majority shareholder ownership on debt. Meanwhile, intellectual capital alleviates the relationship between majority shareholder ownership and debt for full samples and family firms while it does not act as moderator for non-family firms. Meanwhile, further investigation shows that political connection and intellectual capital together can alleviate the nonlinear effect of majority shareholder ownership on debt for family and non-family firms. That alleviation effect could reduce potential agency conflict in the company.

Our findings have several implications. First, minority shareholders should focus on considering the existence of intellectual capital before investing in a company because it

may reduce the agency problem conducted by majority shareholders through debt. The presence of intellectual capital only could reduce the agency conflict between them and majority shareholders in family firms. In contrast, in non-family firms, both political connection and intellectual capital are needed. Second, majority shareholders and management must develop the company's political connection and intellectual capital to increase investor trust, especially for non-family firms.

This finding presents literature and policy contributions. It contributes to the growing literature on agency theory, especially for companies in Indonesia. Intellectual capital could alleviate the relationship between majority shareholders and debt for family firms, while intellectual capital and political connection together could present the alleviation effect for non-family firms. Moreover, this finding could be the reference for the government to create policies for the companies to increase their intellectual capital.

However, like any other research, this study is subject to some limitations. The first limitation is that firms are considered politically connected based on their disclosure on annual reports or financial statements. We do not analyse the political connectedness due to marriage or distant relatives. Second, our study does not distinguish political connection of state-owned enterprises and private companies. Third, this study only uses three years data from 2018 to 2020.

There are several suggestions of future studies that could be conducted. First, future studies could test whether there are any difference characteristics between state-owned enterprises and private companies with political connections since state-owned companies are managed by state. Second, this study analyses the effect of majority shareholders toward debt in Indonesia which has concentrated ownership structure. Future studies could distinguish the majority shareholders' effect on debt in concentrated and dispersed ownership countries. Third, future studies could use a longer data period that consists of at least two presidential terms so the study result is more robust to generalise.

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