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THE RELATIONSHIP BETWEEN OWNERSHIP STRUCTURE AND COMPANY PERFORMANCE

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Abstract:
This study is conducted to analyze the impact of ownership structure on the firm's value. Dimensions of ownership structure are represented by concentrated ownership and managerial ownership. The samples of this study are LQ45 companies listed on the Indonesian Stock Exchange (IDX) for the period 2016-2020. Total Observation of 125 was determined by the purposive sampling method. Both performance measures: ROE and ROA, are used to measure the performance of the corporate. There is market capitalization as the control variable. This study uses Ordinary Least Square (OLS) for hypotheses testing. The results show that Ownership concentration has a negative effect with statistical insignificance on corporate performance (measured by ROE); however, it is positive and significant on corporate performance (measured by ROA). Managerial ownership found insignificance in corporate performance. However, it has a positive effect on corporate performance (measured by ROE) and a negative effect on corporate performance (measured by ROA). The research found that the size of the firm effect (measured by market capitalization) has a positive effect with statistical significance on corporate performance. The implication of this study showed that all companies should take concentrated ownership, which creates majority and minority shareholders creating a potential conflict that may affect the value of the firm and consider size effect on the performance of the corporate

Keywords: Ownership Structure, Ownership Concentration, Managerial Ownership, ROE, ROA, The Performance of Corporate

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INTRODUCTION

In improving company performance, there are often conflicts between managers as company managers (agents) and company owners (especially with insider shareholders); this difference in interests is an agency problem or agency conflict (Breadley et al., 2007). Managers often have different interests in managing the company with the company's owner, usually solving this agency problem by doing corporate governance. The concept of corporate governance appears to minimize the potential for fraud due to agency problems (Saputra et al., 2019). The success of Good Corporate Governance (CGC) cannot be separated from the role of managers and owners of capital, and the diversification of the composition (structure) of ownership in a company ownership structure is a very important issue related to company performance and maximizing company value. (Alipour, 2013; Puspito, 2013; Lestari & Juliarto, 2017; Rahsid, 2020).

The ownership structure is as a means of separation between company owners and company managers (Dewi et al., 2019). The owner of the company is the party that puts capital into the company, while the manager is the party appointed by the owner and given the authority to make decisions in managing the company, with the hope that the manager acts following the interests of the owner (Sudana, 2011). The pros and cons of the influence of the company's ownership structure on the company's performance are often found in financial management and accounting research, but until now, they cannot be concluded (Tam & Tan, 2007). Most studies find that a concentrated (majority) ownership structure has a negative effect on company performance (Alipour, 2013;

Puspito, 2013; Lestari & Juliarto, 2017; Rahsid, 2020); this is because majority shareholders can easily take advantage for the benefit of the company. Personally, at the expense of minority shareholders, which have an impact on the decline in the company's performance, besides that the majority shareholders will maintain their position by choosing a trusted successor of the company, even though they do not have the competence to run the company so that the company's performance decreases (Sara et al., 2021). In addition, there are weak state regulations in developing countries (Lestari & Juliarto, 2017). It was also found that a concentrated ownership structure has a positive effect on company performance measured by ROA (rate of return between earnings on assets), but it is different when measured ROE (rate of return between earnings on equity) which has a negative effect on the Indian capital market (Alipuor, 2013)

The results of the study found that there was a positive and significant effect between managerial ownership structure on company performance (Lestari & Juliarto, 2017; Rahsid, 2020); this is because increasing managerial ownership will make managers act as owners and controllers of the company so that managers seek to improve company performance (Jensen & Meckling, 1976; Alipour, 2013; Kasmis, 2015; Lestari & Juliarto, 2017; Rahsid, 2020), but differ from the findings of Muttakin et al., (2012) that there is no correlation between managerial ownership and firm performance, here the researcher uses variable family ownership structure (managerial) and non-family (external) in small and medium enterprises in Dhaka Bangladesh. The composition of the share ownership of public companies on the IDX is still not balanced between the number of shares that are still owned and controlled by the old owners of the company and the relatively smaller number of new owners and outsider owners. The results of his study show that around 60% of the outstanding stock (number of outstanding shares) is controlled by insider owners, and 40% belongs to the public. (Suteja, 2020).

The attractiveness of investors, both institutional and public, in owning shares (companies) on the IDX is because of the return on ownership of the company (Dewi et al., 2019). Generally, companies that are more desirable to buy on the IDX have high financial conditions, growth prospects, transaction values, and a more diversified (spread) ownership structure. In providing an objective and reliable tool for financial analysis, investors, investment managers, and capital market observers, the IDX presents the LQ45 index; this index is a benchmark for the price movements of active stocks on the IDX. (ajaib.co.id, 2020). The LQ45 index is an index that represents 45 stocks listed and selected based on several criteria, namely those that meet the criteria for the largest market capitalization and high liquidity value and have a free float weight (ownership less than 5%) to 100%, which previously was only 60%. of outstanding shares. The LQ45 index is not always fixed; it can change depending on its performance every six months. IDX also monitors and provides related evaluations of the performance of stocks in the LQ45 index (Wikipedia.org, 2020).

Public company performance can be seen based on accounting performance and market value performance. Measurement of company performance is based on accounting, which uses ratios from financial statements such as profit to capital or ROE (return on equity) and net income to assets or ROA (return on assets), while performance is based on the company's market value (valuation). Stock price to financial ratios, such as TOBIN'S Q (calculation of market capitalization minus book value of total assets plus book value of capital then divided by the total book value of assets) and PBV or price to book value (share price divided by the book value of capital) (Rahsid, 2020). According to the research of Jogiyanto (1998) revealed that in stock valuation, there are three types of value, namely: book value, market value and intrinsic stock value. Book value shows the net assets (net assets) owned by shareholders, then the book value per share is the total equity divided by the number of shares outstanding (Ahmad et al., 2020). Empirical research in finance also considers firm size as an important and fundamental firm characteristic, the pros and cons of firm size influencing empirical results in capital structure, Frank and Goyal (2003) show that pecking order theory (companies that have a higher level of profit, have a lower level of debt) are only found in large companies; Rajan and Zingales (1995) found that increasing leverage (debt ratio) affected the size of the firm. In mergers and acquisitions, Moeller, Schlingemann, and Stulz (2004) found that small companies have higher returns or abnormal returns than large companies; (Banz, 1981; Vijh & Yang, 2013). Furthermore, gaps in the financial literature motivate finding evidence (Saputra et al., 2021).

Research on the firm size as a moderating (control) variable between ownership structure and stock performance shows that firm size (using firm assets) has a significant effect on firm performance, both accounting-based and market value-based performance (Ganguli, 2013; Lestari & Juliarto, 2017). Measurement of a public company's size (size) can use market capitalization. This market capitalization reflects the current value of the company's wealth, where the market price is multiplied by the number of shares outstanding (Ang, 1997; Tandelilin, 2010). Forbes Global 2000 uses four company size tools, namely assets, sales, profit (profit), and market capitalization, to rank all the world's large companies for company size in academic research. (Dang et al., 2017).

Based on these different findings, examining the effect of ownership structure on firm value (market value-based performance) on the Indonesia Stock Exchange (IDX) is very interesting. Therefore, this study uses several criteria: first, the variable capital ownership structure uses concentration ownership (KONS) and managerial ownership (MNJR). Second, for the variable value of the company using Return on Equity (ratio of net income to equity) and ROA (ratio of net income to assets). Third, for moderating variables, namely variables that strengthen the influence of ownership structure on firm value, the authors use firm size as a proxy for the market capitalization (Ang, 1997; Tandelilin, 2010). Fourth, this research is on the Indonesia Stock Exchange (IDX), by using a public company listed in the LQ45 index, because this company is an indicator of 45 companies with a large market capitalization (assets) and high liquidity value and have diversified ownership. (Wikipedia.org, 2020). Therefore, this research aims to determine the effect of ownership structure on the firm value of LQ 45 on the Indonesia Stock Exchange.

METHODS

This study uses secondary data from LQ45 companies on the Indonesia Stock Exchange (IDX) during the 2016-2020 period, while the data consists of: (1)Company owner data included in LQ45 shares on the Indonesia Stock Exchange and the number of shares are used to calculate the company's ownership ratio; (2) share price, is used to calculate company value and market capitalization; (3)The number of shares issued (outstanding) is used to find the ratio of ownership and market capitalization (moderation variable); (4) Company profit/loss report, which is used to find earnings per share (earnings per share) and book value per share (book value per share). The sampling technique used purposive sampling technique with the following criteria; (a) Companies that are included in LQ45 in a row during 2016 -2020; (b)Companies that are included in LQ45 consecutively during 2016 -2020 and have published complete financial statements; (c) The company presents financial statements in Rupiah currency; (d)Companies that are included in LQ45 in a row during 2016 -2020 and make a profit. The results of the sample selection from the criteria above are 25 LQ45 stocks that consistently enter LQ45, issue complete financial statements, in rupiah currency and generate profits. The number of observations is determined by 25 samples multiplied by 5 years = 125 observations. The quantitative analysis technique is used to examine the effect of ownership structure on firm value with the following stages: (a) Determine the independent variable (X), namely X1: Ownership Concentration (KONS), X2: Managerial Ownership (MJNR), and X3 : Market Capitalization (SIZE); (b)Using excel formula (=ln) for market capitalization value (SIZE) algorithm; (c) Using the formula to get the ROE and ROA; (d)Determine the dependent variable (Y): firm value, namely: Y1 : ROE and Y2 : ROA; (e)Perform a regression test using spss, to test the hypothesis.

RESULT AND DISCUSSION

Descriptive statistical analysis provides an overview of the data seen from the minimum value, maximum value, average (mean), and standard deviation (Ghozali, 2013). The descriptive results as depicted in Table 1.

Table 1 Descriptive Results

Variable	N	Min	Max	Mean	Std Deviation
Concentration	125	5.20	173.85	59.0776	18.60473
managerial	125	.00	6.26	.2076	.96549
Market Capitalization	125	29.92	34.35	32.0497	1.19105
Valid N (listwise)			125		

Source: Data processed (2021)

Effect of Ownership, Company Size on Company Performance (ROE)

A regression test between the concentration of company ownership variables (KONS) and market-based companies' performance (ROE) in LQ45 companies during the 2016-2020 period is depicted in Table 2 as follows.

Table 2 Regression Test Results

Ownership	Company Performance (ROE model)		
	B	t	GIS
Concentration (KONS)	-0.020	-0.221	0.826
Managerial (MNJR)	-0.013	-0.145	0.885
Market Capitalization (SIZE)	0.227	2,533	0.013

Source: Data processed (2021)

Based on table 2, Concentration ownership (KONS) on company performance (ROE) in LQ45 companies during the 2016-2020 period has a negative t value, which is -2.221, which means that there is a negative effect of the concentration ownership variable (KONS) on company performance (ROE), where if ownership concentration (KONS) increases, the company's performance (ROE) will decrease. The significance value of 0.826 is above the 0.05 level of significance, which means that concentration ownership (KONS) has no significant effect on company performance (ROE) in LQ45 companies during the 2016-2020 period; therefore, H1 is partially accepted because they are both negative effects, but not significant.

Managerial Ownership (MNJR) on company performance (ROE) at company LQ45 during the period 2016-2020 has a negative t value, namely -0.145, which means that there is a negative effect of managerial ownership variable (MNJR) on company performance (ROE), where if ownership managerial (MNJR) increases it will decrease the company's performance (ROE). The significance value of 0.885 is above the 0.05 significance level, which means that managerial ownership (MNJR) has no significant effect on company performance (ROE) in LQ45 companies during the 2016-2020 period, because H2 is partially accepted because they both have a negative effect, but not significant. The moderating variable of firm size with market capitalization proxy (SIZE) has a positive t-value of 2.533 and a significance value of 0.

Effect of Ownership, Firm Size on Company Performance (ROA)

A regression test between the variable concentration of company ownership (KONS) on market-based companies' performance (ROA) in LQ45 companies during the 2016-2020 period is depicted in Table 3 as follows.

Table 3 Regression Test Results

Ownership	Company Performance (ROA model)		
	B	t	GIS
Concentration (KONS)	0.213	2.422	0.017
managerial (MNJR)	0.026	0.296	0.768
Market Capitalization (SIZE)	0.174	1978	0.050

Source: Data processed (2021)

Based on table 3, Concentration ownership (KONS) on company performance (ROA) in LQ45 companies during the 2016-2020 period has a positive t-value, which is 2,422, which means that there is a positive influence of concentration ownership variable (KONS) on company performance (ROA), where if concentration ownership (KONS) increases, the company's performance (ROA) will also increase. The significance value of 0.017 is below the 0.05 level of significance, which means that ownership concentration (KONS) has a significant effect on company performance (ROA) in LQ45 companies during the 2016-2020 period; therefore, H1 is rejected, because it is different from previous findings which have a negative effect. And significant. Managerial Ownership (MNJR) on company performance (ROA) in company LQ45 during the 2016-2020 period has a positive t value, which is 0.296, which means that there is a positive influence of managerial ownership variable (MNJR) on company performance (ROA), where if managerial ownership (MNJR) increases it will also increase the company's performance (ROA). The significance value of 0.768 is above the 0.05 level of significance, which means that managerial ownership (MNJR) has no significant effect on company performance (ROA) in LQ45 companies during the 2016-2020 period, therefore H2 is rejected. The moderating variable of firm size with market capitalization proxy (SIZE) has a positive t-value of 1.978 and a significance value of 0.050, which means that firm size has a positive and significant effect on firm performance (ROA), therefore H3 is accepted.

CONCLUSION

This study is conducted to analyze the impact of ownership structure on the firm's value. Dimensions of ownership structure are represented by concentrated ownership and managerial ownership. The concentration ownership structure (KONS) has a negative and insignificant effect on company performance when measured by the ROE ratio, and a positive and significant effect when measured by the ROA ratio of LQ45 companies on the Indonesia Stock Exchange during 2016 – 2020. The managerial ownership structure (MNJR) has a negative and insignificant effect on company performance when measured by ROE and has a positive and insignificant effect when measured by ROA on LQ45 companies on the Indonesia Stock Exchange during 2016 – 2020. Size of the company (SIZE) has a positive and significant effect on company performance when measured by ROE and ROA on LQ45 companies on the Indonesia Stock Exchange during 2016 - 2020. This research has the novelty of research in this study are using market capitalization as a proxy for company size (SIZE) as a moderating variable, b) using LQ45 companies on the IDX in measuring ownership structure with market capitalization moderating variable (SIZE) on company performance. This research also has several research implications as follows are to determine the effect of ownership structure, namely the concentration of ownership and managerial ownership, on the performance of accounting-based companies and the implications of market capitalization moderating variable as a proxy for company size (SIZE) on company performance. Suggestions for company owners to consider the composition of ownership (percentage) by dividing ownership between majority and minority to improve company performance and reduce conflicts in the future.

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