OWNERSHIP CONCENTRATION, MANAGEMENT OWNERSHIP, AFFILIATED SUPERVISORY BOARD, AND FIRM PERFORMANCE

THESIS

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Abstract

This article investigates the effects of concentrated ownership, management ownership, affiliated supervisory board on firm performance which modelled by comparing the performance (PER & ROE) between firms with those governance characteristics and firms without such characteristics, to find out whether there is significant difference among the groups. Statistical differences among the means of the groups are considered as indications of possible differences of the effects of the governance variables. *Independent samples t-test* are performed to seek for the performance differences. This study covers all non-financial companies which listed in IDX form 2004 to 2007. The empirical findings show that there is no significant difference in performance between concentrated ownership and dispersed ownership companies, the result keeps remain the same after controlling for firm size and age effects. There is also no significance in difference of performances between firms with and without management ownership, the same result occurs after firm size is cintrolled. However, after controlling for firm age effects the empirical finding shows that firms without management ownership significantly have better performance (PER) than firms without management ownership, within young firms group. The empirical oucomes also show that there is no significant difference in performance between firms with and without having affiliated supervisory board member, the result is still the same after controlling for firm size. However, after controlling for the firm age, there is significant difference (PER) in performance as firms without affiliated supervisory board member outperform the firms with affiliated supervisory board member, within young firms group.

CHAPTER I

INTRODUCTION

1.1 Background

Corporate governance issue becomes popular due to East Asia and Southern Asia crises in 1997. A study by Asian Development Bank (ADB, 2000) found that the crises were triggered by poor corporate governance practices. The collapse of worldwide companies during 2000s such as Enron, Tyco, WorldCom, and Global Crossing in U.S, Marconi in U.K, and Royal Ahold in Netherlands, speeds up the famousness of corporate governance issue. Brown and Caylor (2004) argued that the collapse of those companies was also caused by the weaknesses of corporate governance practices. These facts show that good corporate governance plays an important role in both regional and international economic circumstances.

What is corporate governance actually? Corporate governance is like a big elephant (Turnbull, 1997). Many researchers view it from different angles and describe it from different perspectives. In the perspective of finance, corporate governance deals with the way in which people that finance the corporations make sure that they get return on their investment (Shleifer & Vishny, 1997). This leads to an agency problem; the separation of ownership and control, which is the essence of agency theory (Jensen & Meckling, 1976; Fama & Jensen, 1983).

Agency theory says that owners and managers have divergent interests. Shareholders want to maximize their interests while managers want to maximize their own which resulting agency costs for monitoring managements (Jensen & Meckling, 1976). This usually happens in developed countries where most of the companies are dispersed ownership. The case will be different in developing countries. In developing countries, which characterized by most of the companies are concentrated ownership, arise the power abuse of majority shareholders to minority shareholders (Shleifer & Vishny, 1997). These suggest that different type of ownership structure bears different type of agency problems.

Many researchers have conducted number of studies to observe the impacts of different types of firm ownership structures on firm performance. The results of those studies show both positive and negative impacts of concentrated ownership on firm performance. Positive impact means increasing firm performance whereas negative impact means decreasing firm performance.

The positive impact of ownership concentration on firm value occurs due to large block holders leads to better monitoring of managers (Shleifer & Vishny, 1986) whereas dispersion creates free-riding problems and makes manager monitoring difficult (Berle & Means, 1932). These arguments bear a theory which generally known as monitoring hypothesis. According to this theory, ownership concentration is positively related to firm performance.

CHAPTER V

CONCLUSION

5.1 Research Conclusion

This study analyzes the effects of ownership concentration level, the presence of management ownership and affiliated supervisory board member on firm performance. Firm age and size are controlled in examining those relationships. This study covers all non-financial publicly listed companies in Indonesian Stock Exchange (IDX) from 2004 to 2007. Firm performance is measured by PER (market indicator) and ROE (accounting indicator).

Firm performance is hypothesized to be significantly higher in concentrated ownership firms than in dispersed ownership companies. However, both before and after controlling for the size and age effects, this study fails to prove if there is any significant difference in performance between concentrated and dispersed ownership firms. This failure probably occurs as this study implements immediate ownership structure instead of ultimate ownership structure in categorizing the ownership concentration level (concentrated or dispersed).

Firm performance is hypothesized to be significantly higher in firms that have management ownership than in firms without having management ownership. The empirical findings do not support this hypothesis as there is no significant difference in performance between firms with and firms without having management ownership.

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