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Ownership Structure and Performance of Public Companies Listed in the Indonesian Stock Exchange

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Abstract. The aim of this study is to find out if the concentration of the biggest shareholder, the control rights and the ratio of cash flow rights-control rights of the controlling shareholders contributed to profitability. This study uses purposive sampling technique in collecting the data and linear panel regression in analysing the panel data. The result of this study shows that the ownership concentration of the biggest shareholders has positive impact to company profitability as big shareholders have bigger incentive and thus better chance to do supervision upon the management. The study also found that the control rights concentration of controlling shareholders have negative effect to profitability since more concentrated power of the controlling shareholders made the shareholders position stronger and may incline them to gain individual profit which in turn will reduce the company's profit. On the contrary, higher ratio of cash flow rights to-control rights contributed positively to profitability because higher cash flow rights will tend to prevent the controlling shareholders from expropriating the company's assets.

Keywords*: ownership structure, controlling shareholder, profitability*

INTRODUCTION

Shareholder ownership and financial performance of companies have been a major issue in understanding the effectiveness of the corporate governance (CG) mechanism. According to Shleifer and Vishny (1996), companies residing in good CG circles are more capable of resolving conflicts of interest between the owners (principal) and management (agents) of the company. Berley and Means (1932) states that such conflicts of interest occur due to evenly distributed share ownerships among small shareholders, whereas the administration of the company is in the hands of the management. In such cases, the shareholders of companies whose ownership is evenly distributed are often called as 'outsiders' while the management 'insiders' (Cueto 2007).

Asian and Latin American countries tend to have concentrated share ownership, as opposed to evenly distributed ownerships (Cueto 2007). Conceptually, concentrated ownerships are able to increase the company profitability as supervision of the management of the company is rigid (Earle et al. 2004). Syafruddin (2006) states that as ownership concentration increases, the company profitability increases, in comparison to a company with distributed ownerships. Based on the above, one of the formulating variables of the ownership structure of a company which can be analysed is: share ownership concentration and its effects to the company profitability.

Share ownership concentration is calculated by share ownership percentage of the biggest shareholder in the company ownership structure (Earle et al., 2004). Share ownership concentration variable reflects whether or not share ownership of a company is relatively distributed. This affects supervision to the administration of the company. Relatively distributed ownership may cause loose supervision of the management of the company. Such is caused by the inability of the shareholders to influence the management in the company's operational decision making, thus causing negligence of the management as the manager is responsible for making investment decisions using capitals owned by the company, which in turn affects the investment return of the investors (Earle et al. 2004).

Joh (2001) found that companies with low ownership concentration, calculated by share ownership percentage of the biggest shareholder, have lower profitability. Earle et al. (2004) also found strong evidence that concentrated ownership has positive effects to profitability, which means higher Return on Equity (ROE), whereas Tribo (2002) found that the Return on Asset (ROA) of a company slightly increases due to 1-2 of the biggest shareholders, but decreases when there are more than two biggest shareholders (Earle et al. 2004).

In a study on separation between owners and company managers in nine Asian countries (Hong Kong, Indonesia, Japan, South Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand), it is found that Indonesian companies are characterized by highly concentrated ownership, where such ownership concentration is due to family or groups

of family ownership of a company (Claessens et al., 2000). Based on a study by Claessens et al. (2000), regardless of distributed ownership, another ownership structure formation variable is incentive to expropriate, i.e. willingness of controlling shareholders to expropriate company assets. This variable is measured by viewing the controlling shareholders rights. According to La Porta et al. (2002), controlling shareholders are shareholders who own at least ten per cent of the total shares. Earle et al. (2004) states that controlling shareholder is the biggest shareholder of a company. This view is shared in Claessens et al. (1999).

In addition, the rights to share ownership, according to Joh (2001), are control rights/voting rights and cash flow rights. According to Joh (2001), the presence of controlling shareholders will reduce agency issues between the management and shareholders, but nonetheless will start agency issues between controlling shareholders and minority shareholders.

In general, expropriation is associated to the usage of company assets for personal interests by the controlling shareholders (Fan and Wong 2000). The expropriation intensity can be seen through the condition of profitability levels (Sari 2004). Apart from the control rights contentration of controlling shareholders, another proxy used to understand the probability of company resource expropriation, especially in countries where investor protection is weak, was done by La Porta et al. (2002) by calculating the wedge of segregating voting rights and dividend rights of controlling shareholders through the investigation of share ownership chain in its subsidiaries. While Claessens et al. (1999) utilizes cash flow rights ratio to control rights of controlling shareholders.

Fan and Wong (2000) states that controlling shareholders have higher control rights than cash flow rights. The urge for expropriation of the controlling shareholders increases in line with the wider gap between control rights and cash flow rights. Such is caused since wider control rights give more power to expropriate, e.g. by not paying dividends, transferring profits to other companies, or managing projects which does not maximize the profit of the company (Utama 2006). Several literatures, such as Earle et al. (2004), Joh (2001), Claessens et al. (1999), and Claessens et al. (2000), find lower ROA and ROE rates in companies with high gap between control rights and cash flow rights of their controlling shareholders. ROA is used as the proxy for profitability, because it calculates more accurately the influence of share ownership structures toward the accounting profitability because it measures the investor returns. ROE is used as the proxy for profitability because the main objective of a company is to improve the prosperity of its shareholders, i.e. securing the returns of invested capitals (Joh 2001).

Ownership structure can be viewed from various perspectives in order to show different empirical evidences based on the used variable of ownership structure. Cueto (2007) studied ownership structure as a CG mechanism in Latin American countries which has high ownership concentrations. CG mechanism affects the value of a company and market liquidity. In the study, Cueto states that controlling shareholders divert company resources for private interests, emphasizing on the differences between control rights with cash flow rights. Cueto also studied the motivation of outside investors who are participating in financing company activities.

Earle et al. (2004), on the other hand, uses panel data to measure the effects of ownership concentration to company financial performance listed in the Budapest Stock Exchange, Hungary. The results suggest that concentrated ownership influences company profitability (ROE). However, significant profitability increase depends greatly on the size of the biggest shareholders, and if there are several blockheadings, then the profitability increase is not as great as that of one major shareholder. Therefore, marginal effects of additional blockheadings are negative.

Gedajlovic and Shapiro (1998) studied 334 companies listed in Japan between 1986 and 1991, and concluded that ownership concentration in non-financial and financial companies has positive effects to ROA (Pranoto 2009). Mitton (2002) studied 389 companies in Indonesia, Korea, Malaysia, Philippines, and Thailand, which suffered from the 1997-1998 financial crisis, by using disclosure quality, ownership structure, and company diversification as the independent variables and company financial performance as the dependent variable. This study shows that CG frailness in the countries taken as samples worsened the then current financial crisis, which further urged controlling shareholders to expropriate the rights of the minority shareholders.

In a study on separation between owners and company managers in nine Asian countries (Hong Kong, Indonesia, Japan, South Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand), it is found that more than two thirds of the companies are controlled by a single shareholder. A perfect separation of shares between the managers of the company and the shareowners is rarely found in

those countries (Claessens et al. 2000). Kapelyushnikov (2000) reports a non-linear relation between ownership concentration and company financial performance, where companies with the best financial performance are those with insignificant ownership concentration. On the other hand, Sari (2004) studied the influence of ownership concentration of the biggest shareholders toward public ownership, and found negative relations between such shareholders and company ROA and no relations whatsoever to Tobin's Q. It is concluded that the costs incurred by such shareholders are greater than the benefits the company could achieve.

Claessens and Djankov (1999) use the data from 706 Czechoslovakian companies between 1992 and 1997. They used profitability as variable and labour productivity as company performance indicator. Empirical test results show that the lower the distributed ownership of a company, the higher the profitability and productivity of its workforce. Dennis and Dennis (1994) use data from 72 American companies and found that there are no performance differences in companies with controlling shareholders and companies without them (Utama 2006). Financial performance variables used are ROE, ROA, operating income to asset, Tobin's Q, and market to book ratio.

From the description above, the main issue which discussed will adopt several studies which have been carried out previously by Claessens et al. (1999), Earle et al. (2004), Joh (2001), and Sari (2004), assuming that ownership structure, with ownership concentration variable and incentive to expropriate, affects company profitability as it determines company operations supervision and the relations between the biggest (controller) and minor shareholders; the former is part of the management which decides which profitable operational decisions shall be taken. Such decisions will in turn determine whether it is profitable for every shareholder or for the biggest shareholders as controlling shareholders. The aims of the study are: (1) to analyse the positive influences of share ownership concentration by proxy of the biggest shareholders' ownership to company profitability; (2) to analyse negative influences of expropriating incentive toward company profitability by proxy of control rights concentration of controlling shareholder; and, (3) to analyse positive influences of expropriating incentive toward company profitability by proxy of cash flow rights - control rights ratio of controlling shareholders.

METHODOLOGY

This study employs a quantitative approach, tests the relations among hypothesized variables, and explain whether the ownership structure variables influence company profitability. In this study, obtained data are secondary data, consisting of company financial statements and annual reports. The secondary data are: (1) financial statements and annual reports obtained from the Indonesia Stock Exchange (IDX) and supplemented with data from the Indonesian Capital Market Directory (ICMD); and, (2) bibliographic research. In this study, the target populations are companies listed in the IDX from 1st January 2004 to 31st December 2008, totalling to 335 companies. The entire population is not entirely analysed due to cost, energy, and time limitations. As such, sampling is considered a representation of a population (Cooper and Schindler 2006). Of the 335 companies, 69 companies are listed under the financial industry. The companies submit their annual reports and financial statements in succession and comprehensively within the period. There are 104 companies' reports and statements which are downloadable from the IDX website. The annual reports enclose capital shares and share ownership of 66 consolable companies, 11 outlier companies, and 55 non-outlier companies. The total number of samples in this study is 55 companies.

Specifically, samples for this study are obtained by using purposive sampling tehnique. Purposive sampling is defined as a sampling process based on several criteria (Cooper and Schindler 2006). The sample criteria set forth in this study are: 1) companies listed in the IDX between 2004 to 2008; 2) companies not listed under financial industry due to differences in: financial performance measurement and financing structure, as general companies listed under the financial industry employs greater third party funding, in addition to differences in investment opportunities (Pranoto 2009); 3) companies which submit their annual reports and financial statements in succession and comprehensively within the period and are downloadable from the IDX website; and, 4) the annual reports enclosing capital shares and share ownership in consolidated subsidiaries.

On the other hand, the data analysis methods employed in this study include descriptive statistics analysis, panel data analysis, and classic assumption tests. Quantitative study emphasizes on two types of hypotheses, single variable hypothesis and causal hypothesis, or multiple variable hypothesis (Cooper and Schindler 2006). The proposed hypotheses of the study are: H_a where each variable significantly affects company profitability.

There are several empirical studies which support the notion that concentrated ownership are able to

Table 1. Descriptive Statistics Summary

	CONS?	CTR?	CFR_CTR? TR?	LEV?	SIZE?	ROA?	ROE?
Average	0.477380	4.156651	0.844006	0.527782	14.03833	0.045960	0.094778
Median	0.509700	2.550000	0.903751	0.520000	14.34000	0.033300	0.081000
Maximum	0.928800	20.81000	2.817814	2.380000	18.33000	0.426400	0.586000
Minimum	0.061800	0.160000	-1.976711	0.030000	9.210000	-0.172900	-0.231000
Std. Dev.	0.204325	3.913009	0.478087	0.281192	1.771217	0.065552	0.121838
Observations	275	275	275	275	275	275	275
Cross sections	55	55	55	55	55	55	55

CONS = largest shareholder ownership concentration
CTR = controlling shareholders control right concentration
CFR_CTR = controlling shareholders control right cash flow rights-control rights ratio
LEV = debt to asset total
SIZE = company asset total
ROA = *return on asset*
ROE = *return on equity*

increase company profitability since supervision of the management of the company is rigid (Earle et al. 2004). Syafruddin (2006) states that as ownership concentration increases, the company profitability increases, in comparison to a company with distributed ownerships.

H_{a1}: Share ownership concentration positively affects company profitability.
Several literatures, such as Earle et al. (2004), Joh (2001), Claessens et al. (1999), and Claessens et al. (2000), find lower ROA and ROE rates in companies with high gap between the control rights and cash flow rights controlling shareholders.

H_{a2}:Controlling shareholders' incentive to expropriate affects company profitability.

RESULTS AND DISCUSSION

Table 1 is a summary of descriptive statistics of each variable required in the model; the variables of which are average value, maximum and minimum value, and standard deviation, in other words, a summary of centralized and disseminated data.

As for company financial performance, the average sample of company profitability has an ROA of 4.59% and an ROE of 9.47%. The maximum value of ROA and ROE are 4.26% and 5.86%, respectively. In figure 1, it can be seen that the average ROE value is slightly higher than that of ROA since the sample companies utilizes lower equities in its operations, thus the total equity is slightly lower than the total asset and the equity returns is higher. Furthermore, profitability tends to increase year in, year out, except in 2008, when there was global economic crisis that affected the sample companies.

Share ownership in sample companies tend to concentrate, averaging at 47.74%. According to Earle et al. (2004), Company ownership is considered concentrated if the shareholders own at least 20% of the total shares. The view is shared with Claessens et al. (1999), that ownership concentration in Asian countries, including Indonesia, is considered as relatively highly concentrated, despite a drop in the value since an ownership concentration study was carried out by Claessens et al. (1999) between 1996 and 1998. The ownership concentration value at that time reached 68.60%. The drop in concentration levels, perhaps, is due to the use of a smaller sample, 55 companies, compared to the study by Claessens et al. (1999), which studied 176 Indonesian companies. In addition, the drop occured, perhaps, because the biggest shareholders sold some of their shares in order to diversify. Thus, the ownership structure accommodates more minor shareholders whose ownership is less than 5%.

The high level of ownership concentration is associated with a group of companies which are usually owned by one or more families. When a company goes public, the founder of the company usually owns the majority of the shares, so that he can retain the required share proportions to still be in charge of the management of the company. The point is shared with Claessens et al. (2000), who states that companies in Indonesia tend to be controlled by 1 or 2 biggest shareholders. Moreover, the size of

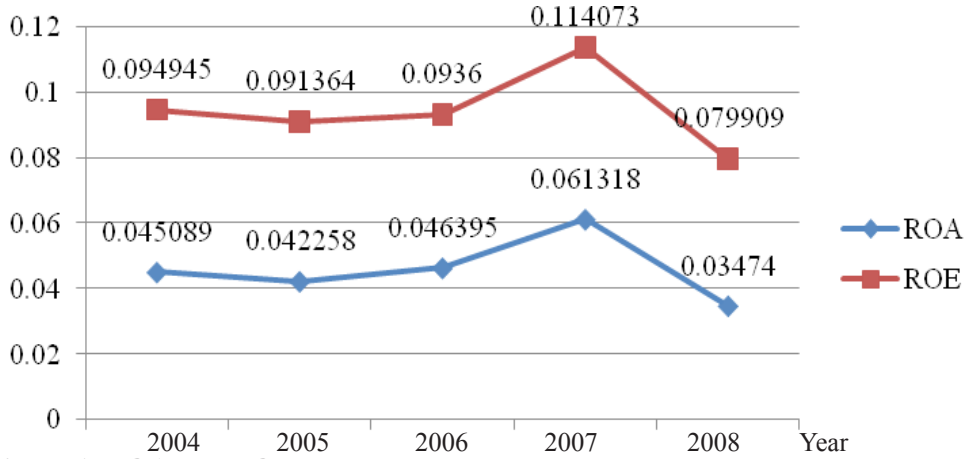

Figure 1. ROA and ROE Movement

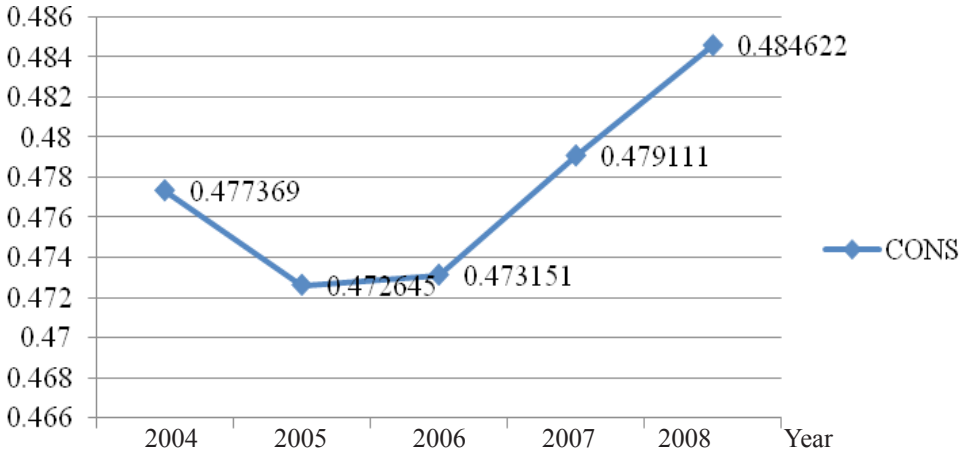

Figure 2. Ownership Concentration Movements

the company is also a decisive factor in ownership concentration levels, as there are assumptions that the bigger the company, the more distributed is the ownership.

In Figure 2, it can be seen that ownership concentration tends to be stable during the period of study. Therefore, based on average CONS value in the graph, it can be concluded that ownership concentration in sample companies tend to not be distributed and the relative ownership concentration does not undergo significant changes during the period of study.

The average and the minimum values of the controlling shareholders control rights concentration variables are 4.16 and 0.16, respectively. CTR average year in, year out tends to increase, as seen in Figure 3.

Claessens et al. (1999) postulates that controlling shareholders enroot their control by means of a pyramid scheme, where share ownership of company A constitutes ownership of shares of other companies owned by A, or by cross holding, where each subsidiaries own shares of other companies. By using the pyramid structure and cross holding schemes, controlling shareholders accumulate their control rights in the company either by direct ownership of a subsidiary or indirect ownership of other subsidiaries. Control rights expand in proportion to the number of subsidiaries and controlling share ownership in the subsidiary. Controlling shareholders are said to have control, in that they have the rights to make decisions for the company if his ownership exceeds 10%.

The average value of CFR/CTR ratio variable is 0.84, slightly higher than the findings of Claessens et al. (1999), which is 0.76. The higher ratio is perhaps due to the implementation of better company administration procedures or economy. Joh (2001) states that if the economy is normal (not in a crisis), controlling shareholders tend to increase their CFR, thus increasing the ratio.

Despite the above, the ratio found in this study is less than 1, which is in line with Claessens et al. (1999), and with the presence of a pyramid structure and cross holding between companies, therefore caused control rights to be greater than cash flow

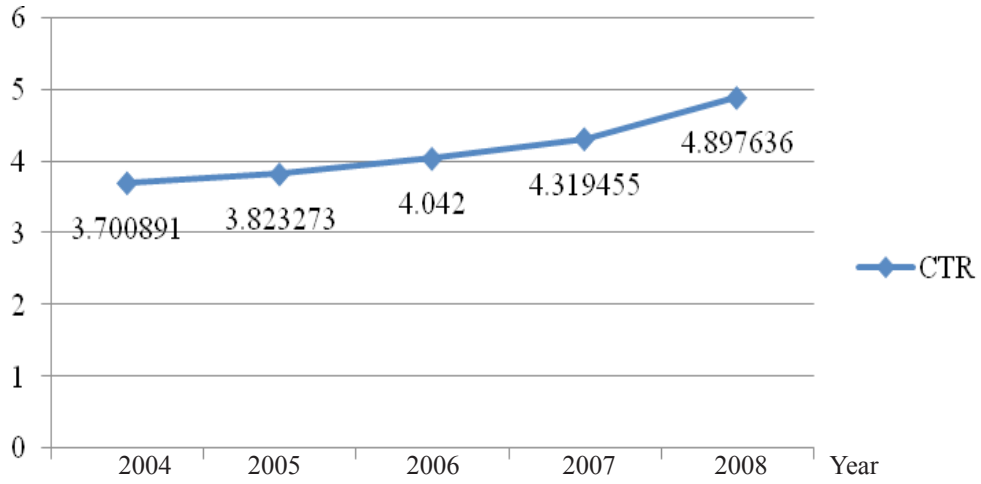

Figure 3. Control Rights Concentration Movements

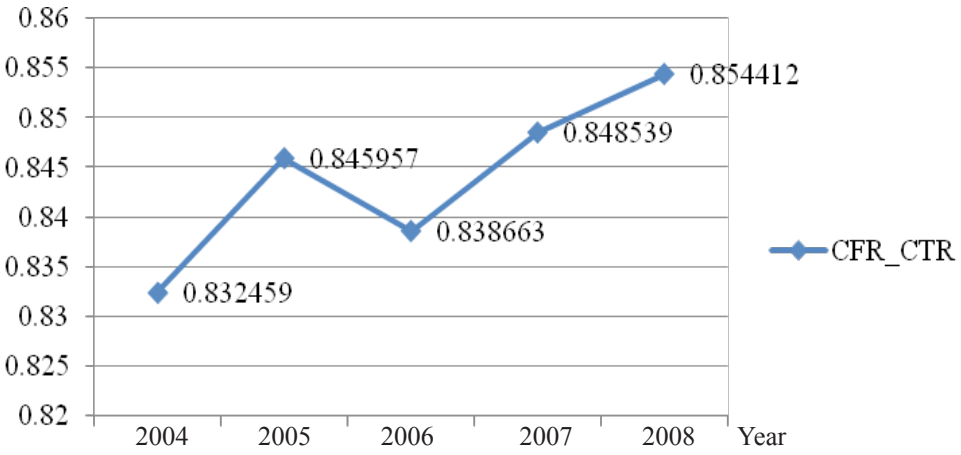

Figure 4. Cash Flow Rights-Control Rights Ratio

rights. This is found especially in Indonesia, Japan, and Singapore. It is also found that separation of the management from ownership control is seldom carried out in companies where ownership tends to be undistributed.

The increase of the control rights also increases the power to lobby the management in making decisions. It, in turn, increases the possibility of making decisions which are self beneficial to the controlling shareholder, such as, setting dividend returns, deciding investment, and appointing company executives.

According to La Porta et al. (2002), the ratio decreases in countries with weak legal protection for investors and poor corporate governance implementation, thus controlling shareholders are not supervised. Claessens et al. (1999) added that 60% of the controlling shareholders in Indonesian companies are part of the elite management.

Claessens et al. (2002) also states that if the State does not protect ownership rights in the economy, individual ownership enforcement gains importance. Share ownership structure in itself will determine on which level a company's contact could and would be signed since it will control the ability and incentive of the owners in exercising their rights. Based on the above, the CFR/CTR ratio is lower in an economy which does not enforce ownership protection. Without dependence on the State, controlling shareholders will exercise their power by way of voting rights and incentives (by way of cash flow rights) to negotiate and carry out contracts with various stakeholders, consisting of minor shareholders, managers, employees, suppliers, creditors, and the government.

The average value of the control variable LEV is 52.77%. This figure suggests that the sample companies, in general, utilize obligations more than equities (Pranoto 2009). On the other hand, the average value of Size is 14.03, which is the natural logarithm of the size of a company by total assets. As seen in the table, company size increases every year:

There are three alternative models in the treatment of the panel data: (1) Pooled Least Square (PLS) Model; (2) Fixed Effect Model (FEM) approach; and, (3) Random Effect Model (REM) approach.

Chow test is used to select either PLS or FEM.

Table 2. Company Size

Year	Size
2004	13.79891
2005	13.91236
2006	13.99818
2007	14.13800
2008	14.34418

Table 3. Chow Test Value Summary

	Chow Test	
	ROA	**ROE**
RRSS	0.951332	3.401703
URSS	0.405542	1.180844
N	55	55
K	5	5
T	5	5
Chow Test	5.43921	7.4918
F Stat	1.397441183	1.397441183
Model	*Fixed Effect*	*Fixed Effect*

Table 4. Hausman Test Value Summary

Description:	**ROA**		**ROE**	
	Chi-Sq.	**Prob.**	**Chi-Sq.**	**Prob.**
Cross-section random	14.014569	0.0155	23.793486	0.0002
	Fixed Effect		*Fixed Effect*	

Table 5. Model Selection Summary

Test	Results	Model Used
Chow	*Fixed Effect*	FEM
Hausman	*Fixed Effect*	FEM

The test is carried out to compare Chow value and F-stat.

Based on Table 3, it is seen that Chow value is greater than F-stat value. As such, the model used for both proxies is FEM.

After the Chow test was carried out, the FEM will undergo the Hausman test. The value which must be considered in the Hausman test is the probability value of Chi-square.

Based on Table 4, it is seen that Chi-Sq. probability value of both proxies is less than 0.05. As such, the model used is FEM. Based on both tests, it is concluded that the model which will be used is FEM.

I will use the formal statistical test in deciding which model to use since the results are much more accurate, as opposed to using only formal tests comparing N and T.

The classic assumption test is divided into normality, multi-collinearity, hetero-scedasticity, and auto-correlation tests. Normality test is carried out to understand data normality by observing normal probability plot. If the residual is originated from the normal distribution, then the distribution value of the data is situated around the straight line, which is the normal distribution line (Sarwoko 2005). Casewise Diagnostics found 11 outliers on the ROE and 15 outliers on the ROA. However, I can only extract 11 outliers from the ROA for the reason that, if viewed from the normal probability plot, it is already located around the normal distribution line and has a low standard deviation value. Multi-collinearity test is a regression equation phenomenon assumed to have strong correlations between the independent variables in the equation (Nachrowi 2006). Multi-collienarity detection can be carried out in several ways, among which is from the Correlation Matrix. Should the value is less than ±0.8, multicollienarity does not take place (Sarwoko 2005). In the table, multicollinearity does not take place since there is no value exceeding ±0.8.

The heteroscedasticity can be left out should the GLS Gujarati method is used (2003). However, referring to Pranoto (2009), I will apply white cross-section and cross section weight to minimize heteroscedasticity conditions, thus achieving improved variable significance levels. Variables which are subject to treatment can be seen in the table. Changes caused by the allowing error variants to be consistent show that there is hetero-scedasticity present in the model. The auto-correlation test is carried out by comparing the tables DW-stat and DW (Sarwoko 2005). The DW-stat is then inserted into Table 9. Based on Table 9, it is seen that autocorrelation is not present since DW-stat is between the ranges of 1.592 and 2.408.

A. Statistical Model Criteria Tests

Statistical criteria can be viewed from several regression values, which are R^2 value (R^2 value reflects the values of related variables in estimation models) an adjusted R^2 F-stat value, and t-stat value.

By using ROA in analysing R^2 and adjusted R^2

Table 6. Correlation Matrix Values

Des.	CONS	CTR	CFR_CTR	LEV	Size
CONS	1.000				
CTR	.193	1.000			
CFR_CTR	.395	-.374	1.000		
LEV	.113	-.134	.190	1.000	
Size	-.018	.415	-.356	.113	1.000

Table 7. Significance after Treatment

Des.	ROA		ROE	
	Before	After	Before	After
CONS?	0.0000	0.0000	0.0088	0.0479
CTR?	0.0002	0.0000	0.1455	0.0054
CFR_CTR?	0.0834	0.0617	0.1762	0.0022
LEV?	0.0000	0.0000	0.1501	0.1238
SIZE?	0.0957	0.0000	0.0833	0.0000

Table 8. DW Table Values

Des.	Value
N	55
k	5
d_L (66,5)	1.209
d_U (66,5)	1.592
DW-stat (ROA)	1.681002
DW-stat (ROE)	1.685599

N = total cross-sections
K = total variables
d_L = DW table lower limit
d_U = DW table higher upper limit

Table 9. DW-stat and DW Tables Comparison Rules

Autocorrelation Positive			Unknown		No autocorrelation	Unknown	Autocorrelation negative
0	1,209	1,592	2	2,408	2,791	4	

regression, the value of R^2 is found to be 0.903815. As a dependent variable in the model, profitability by proxy of ROA describes 90.38% of the model, while the remaining 9.62% is explained by factors outside the model. By using ROE in analysing R^2, the value is found to be 0.871322. This indicates that profitability by proxy of ROE describes 87.13% of the model, while the remaining 12.87% is explained by factors outside the model.

Multiple regression analysis (F-stat) is explainable by means of F-stat value of 44.63863 in the ROA table and zero probability. This value is absolute at 99%, or is classifiable as highly significant. Multiple regression analysis (F-stat) is explainable by means of F-stat value of 32.44656 in the ROA table and zero probablility. This value is less than 1% significance, or is classifiable as *highly* significant. Therefore, concentrated share ownership, concentrated control rights of controlling shareholders, cash flow rights-control rights ratio of controlling shareholders, leverage, and company size affects company profitability significantly.

T-stat analysis will describe the relation of each independent variable to that of the dependent variables. *First*, largest concentration of shareholder ownership (CONS). The values of t-stat for the CONS variable by proxy of ROA and ROE are 4.274283 with zero probability and 1.990055 with 0.0479 probability, respectively. The probability values are less than 5% significance, or 95% absolute (p-value is less than 0.05). CONS coefficients are positive 0.036794 and positive 0.077487 for ROA and ROE,

Table 10. ROA Regression Results Summary

Des.	Assumed Operator	Var.	Coefficient	t-stat	Prob.
t-stat	+	CONS?	0.036794	4.274283	0.0000
	-	CTR?	-0.004535	-4.324119	0.0000
	+	CFR_CTR?	0.004135	1.878214	0.0617
	-	LEV?	-0.093588	-6.683430	0.0000
	+	SIZE?	0.004848	9.386189	0.0000
N	55				
R^2	0.924526				
Adj. R^2	0.903815				
F-stat	44.63863				
Prob. F-stat	0.000000				
DW-stat	1.681002				

Note: $ROA_{it} = \beta_0 + \beta_1 CONS_{it} + \beta_2 CTR_{it} + \beta_3 CFR/CTR_{it} + \beta_4 LEV_{it} + \beta_5 Size_{it} + \varepsilon_{it}$

Table 11. ROE Regression Results Summary

Description:	Assumed Operator	Var.	Coefficient	t-stat	Prob.
t-stat	+	CONS?	0.077487	1.990055	0.0479
	-	CTR?	-0.004347	-2.809429	0.0054
	+	CFR_CTR?	0.040860	3.092749	0.0022
	-	LEV?	-0.043663	-1.544895	0.1238
	+	SIZE?	0.011401	4.516450	0.0000
N	55				
R^2	0.899030				
Adj. R^2	0.871322				
F-stat	32.44656				
Prob. F-stat	0.000000				
DW-stat	1.685599				

Note: $ROE_{it\,t} = \beta_0 + \beta_1 CONS_{it} + \beta_2 CTR_{it} + \beta_3 CFR/CTR_{it} + \beta_4 LEV_{it} + \beta_5 Size_{it} + \varepsilon_{it}$

respectively. Thus, a 1% increase of ownership concentration would increase ROA and ROE by 3.68% and 7.75%, respectively. The results support the assumption that if ownership is relatively distributed, shareholder supervision tends to be weak due to poor supervision by the minor shareholders. Minor shareholders receive small returns from the company, but nonetheless they are liable to supervision costs, thus they are lack of interest in supervising the company. Should every minor shareholder acts the same, then there will be no supervision against the management of the company. Ineffective management supervision allows the opportunity for managerial discretion, where managers invest in unprofitable high-risk projects, for instance. Such behaviour occurs in the supervision takeover from minor shareholders by company mangers (Joh 2001).

This positive and significant relation affects subsidiaries since companies held by the biggest shareholders expect a transfer of knowledge within their circles. The relations between a parent company and its subsidiary encourage company owners to transfer his resources to the subsidiaries, consequently allowing the subsidiaries to be highly profitable, which, in turn, affect the parent company.

Second, control right concentration of controlling shareholders (CTR). The values of t-stat for the CTR variable by proxy of ROA are -4.324119 and -2.809429 with zero probability, which is significant at 1%, 5%, and 10%. As for ROE, the value is 0.0054, significant at 1%, 5%, and 10%. The coefficients are -0.004535 and -0.004347. Thus, a 1% CTR concentration increase will decrease ROA and ROE by -0.45% and -0.43%, respectively. Consequently, controlling shareholders control rights concentration significantly and negatively affects company profitability. The findings of this study support the notion that increased concentration of the ownership increases company profitability. However, if the increase is followed by an increase in control rights, by means of the pyramid structure or cross holding, it decreases company profitability because company control is concentrated at the shareholders. Accordingly, their position within the company gains significance, allowing them to use the company resources for personal gain, which, of course, decreases company profits.

Third, cash flow rights-control rights (CFR/CTR) ratio. The t-stat value, coefficient, and probability of CFR/CTR of the controlling shareholders by proxy

of ROA are 1.878214, 0.004135, and 0.0617, respectively. The values are 5% insignificant. As for the ROE, the t-stat value, coefficient, and probability are 3.092749, 0.040869, and 0.0022. The values are significant at 1%, 5%, and 10%. As such, a 1% CFR/CTR increases ROA and ROE by 0.41% and 4.08%. The conclusion of the study indicates that the incentive to expropriate by proxy of cash flow to control rights of the controlling shareholders has positive effects to profitability by 10%. CFR/CTR reflects the incentive of the controlling shareholders to expropriate company assets. A high CFR will decrease the incentive to transfer company resources for personal interests (Joh 2001). The importance of high cash flow rights is due to the belief of the minor shareholders, that company profitability is affected if the controlling shareholders use company assets for personal interests. Per se, a positive relation between profitability and cash flow rights of the controlling shareholders is established. The concentrated cash flow rights of the controlling shareholder made it possible to increase profitability and unite the interests of the major and minor shareholders (Joh 2001).

In its association with investment opportunities, should a controlling shareholder has a low CFR, he will not gain any profit in future investments. As a result, he tends to expropriate assets rather than invest resources in projects of positive NPV, even if there are other investment opportunities. With a concentrated CFR, he would wait for a profitable investment in the future and expropriate less in the meantime.

Therefore, ownership structure determines controlling shareholders' incentive; the greater the CFR, the greater the lost a controlling shareholder would suffer should he expropriate from the company. Claessens et al. (2002) states that controlling shareholders would expropriate more should there is sufficient compensation from the expropriation. The compensation is inversed to lower CFR to CTR ratio and decreases CFR. However, the opportunity to expropriate reduces with the implementation of better CG practices. Sound CG practices, the presence of an independent commissioner and equal protection for every shareholder, for instance, affects sound internal control mechanisms and in turn prevents controlling shareholders to expropriate.

Fourth, leverage (LEV) and size. The t-stat values of the control variable LEV to ROA are -6.683430 and 0.0000 profitability, significant at 1% with a coefficient of -0.093588. The t-stat value to ROA is -1.544895, which is insignificant at any rate, and a coefficient of -0.043663. Therefore, the LEV variable negatively affects company profitability. This suggests that companies which tend to use leverages as a source of funding show lower profitability.

The negative effect of LEV is caused by the notion that the more debts a company has, the more interest it has to pay. This negatively affects its profitability. Should the ROA of the company exceed its interest; the company acquires more funds than it has to pay to its creditors. In turn, this allows for capital surplus for the company owners, who are the shareholders (Joh, 2001). Hence, the significance of leverages to ROE depends on asset returns and interest rates.

In addition, the negative effects of increasing debts are caused by the exposure of the company to bankruptcy risks and decreased future investment flexibility due to current debts. In other words, the company will not be flexible in its investment policy should it acquire future funding by means of current debts.

For the second control variable, size, the t-stat values are 9.386189 and 4.516450, significant at 1% and a coefficient of 0.004848 and 0.011401. As such, the size of a company has a positive and significant relation to profitability. The positive relation can be explained as follows: companies of great sizes tend to increase its economic scales for better growth. For that end, they need to employ competent and qualified managers, in addition to implementing procedures which boost productivity. As a result, the measures ameliorate company operations, increasing its efficiency and profitability. In accordance to the findings of Joh (2001), the size of a company determines investment opportunities, thus has an effect in company returns.

CONCLUSION

The study finds that ownership concentration as a variable in ownership structure, by proxy of major share ownership, has significant, positive effects in company profitability. As for the incentive to expropriate variable, by proxy of control rights, has significant, negative effects to profitability since control is concentrated in the shareholders, thus placing them of influential positions allowing for personal interests. This, in turn, decreases company profitability. By proxy of cash flow to control rights ratio, controlling shareholders affects profitability positively and significantly. The reason for such is because greater cash flow rights increase the losses a controlling shareholder suffers should he expropri-

ate the company. Nonetheless, expropriation chances are decreased with the implementation of better company administration, which results in a better internal control mechanism and prevents controlling shareholders to expropriate. Accordingly, by using both proxies, it is concluded that the incentive to expropriate variable can affect positively or negatively, depending on control rights and cash flow rights of the controlling shareholders.

The results of the study may be a consideration for investors or securities issuers. In considering which share to be added to their portfolios, investors have to consider the ownership structure of a company as a decisive factor in the administration of a company. Moreover, investors have to consider profitability, especially ROA and ROE, before investing in certain shares. As for securities issuers, in order to achieve better company performance figures, especially in increasing company profitability, they have to consider the ownership structure, so that a mutually beneficial relation between the stakeholders of the company, particularly the controlling shareholders and minor shareholders, in the administration of a company is established. Securities issuers also have to consider profitability because it is a valid measure of company operations, in addition to comparing alternative investments along with the risks involved.

This study, along with other studies on ownership structure and company financial performance which illustrates effective corporate governance mechanisms by means of descriptive statistics analysis, has its limitations. In general, this study has to be postponed from time to time in finding whether ownership concentration as a variable in ownership structure, by proxy of major share ownership, has significant, positive effects in company profitability (the study was carried out between 2009 and 2010). Additionally, studies on corporate governance consists only of figures of the effectiveness of the corporate governance mechanism. In such mostly quantitative studies, qualitative questions, for instance how ownership structure formation variables influences company profitability, are seldom left unanswered. On that basis, an in-depth analysis is suggested to complement this quantitative study. The analysis should explore quantitative aspects of the reality of corporate governance, thus obtaining results which are useful for further studies.

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