The South East Asian Journal of Management

Volume 2
Number 1 *April (2008)*

Article 1

4-30-2008

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THE SOUTH EAST ASIAN JOURNAL OF MANAGEMENT

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The primary objective of this study is to test the simultaneous relationship between the firm value, the corporate governance practice, and the ownership structure on a sample of 114 companies quoted in the Jakarta Stock Exchange (JSX)[1]. The study finds that the corporate governance practice fails to affect the firm value, but the firm value is a positive predictor of corporate governance practice. Further, the influence of corporate governance practice on the firm value becomes less when the wedge of the firm becomes higher. The ownership structure and the firm value have no systematic relationship. Controlling shareholders and foreign blockholders that presumably are Indonesian blockholders (FBIB) do not extract private benefits for themselves or do not expropriate the wealth of the minority shareholders. But, the percentage of ownership by FBIB has negative influence on the corporate governance practice.

Keywords: *ownership structure, corporate governance, firm value.*

Introduction

After La Porta et al. (1999) and Claessens et al. (1999a) exposed the concentration of firm ownership structure outside the US, there have been many researches on the relationship between firm value and the ownership structure by observing expropriation on minority shareholders. Researches conducted by Claessens et al. (1999b), La Porta et al. (2002), Claessens et al. (2002), Burkart et al. (2003), Joh (2003), Klapper and Love (2004), and Durnev and Kim (2005) showed expropriation on minority shareholders directly or indirectly.

As a means of preventing expropriation on minority shareholders, the influence of corporate governance practice to firm value has been investigated by many researchers, e.g. La Porta et al. (1997, 1999, and 2002), Lemmon and Lins (2003), Lins (2003), Klapper & Love (2004), and Durnev & Kim (2005). They proved that corporate governance practice generally gives positive influence to firm value.

Nevertheless, there is still an opportunity to investigate the triangle relationship between the firm value, the ownership structure and the corporate governance practice by observing endogenous relationship between those variables. Furthermore, there is no such research made on interaction observation between ownership structure variable and corporate governance practice.

1. Jakarta stock exchange (JSX) is now recalled as Indonesian stock exchange (ISX)

Though corporate governance practice is assumed to experience mutual convergence with globalization, the distinctive feature of corporate governance practice in every country still exists due to the differences in law, institution, politics, and culture (Guillen, 2000). Data used in previous researches, excluding Black (2001), Joh (2003), black et al.(2003), Black et al (2005), reveals that the characteristic of corporate governance practice in every country were not widely exposed.

The economic crisis of 1997-98, brought in a significant change in the ownership structures of firms in Indonesia. Nonetheless, in reality, the previous owners had their restructured companies back by all means. For example, *Indofood*, owned by Salim Group before crisis, had become Foreign Capital Firm owned by *First Pacific* and *Nissin* in 1999. Whereas, First Pacific, located in Hongkong, were also owned by Salim Group (53.5 % stocks owned by this group) (Kompas, January 26, 1999). The typical ownership structure was that foreign blockholders that presumably were Indonesian blockholders, were FBIB (Foreign but Indonesia).

The main purpose of this research is to expose and study the relationship between the ownership structure, the corporate governance practice and the firm value of public companies in JSX.

The following specific research purposes are ways of achieving the main purpose of this research.

1. To find the relationship and to propose some explanations on the relationship between corporate governance practice and firm value related to wedge (the difference between control rights and cash flow rights).
2. To investigate the relationship and to propose some explanations of the relationship between FBIB blockholders ownership percentage and firm value.
3. To study the relationship and to propose some explanations of relationship between FBIB blockholders ownership percentage and corporate governance practice.

The first contribution of this research is the simultaneous relationship between the ownership structure, the corporate governance practice and the firm value. Though some researches have observed endogenous characteristic between those two variables, there is still no research conducted on the simultaneous relationship between those three variables. Corporate governance practice has been influential to ownership structure, and vice versa (Bebchuk and Roe, 1999). Therefore, the simultaneous relationship between these three endogenous variables, which are firm value, ownership structure and corporate governance practice, needs to be investigated. The methodology used in this research is two-stage-least squares. The relationship between firm value and corporate governance practice (control rights – cash flow rights) has been investigated (La Porta et al., 2002; Claessens et al., 2002; Black et al., 2003). Some studies assumed that the relationship between firm value and corporate governance practice were not dependent on ownership structure, particularly wedge level.

However, how big the influence of corporate governance practice on firm value can be influenced by wedge level. If wedge level is low, the influence of corporate governance practice on firm value will be high. On the other hand, if wedge level is high, corporate governance practice is only used to show off and becomes ineffective. Therefore, this research will investigate the different influences of corporate governance practice on firm value based on wedge group.

When companies were taken over by the government in crisis period, then were re-sold, an interesting ownership structures were created, that is foreign blockholders

that presumably are Indonesian blockholders (FBIB). Their presence and roles have not been investigated due to various limitations, particularly in data source. This research will be able to discover the percentage of influence of FBIB blockholders ownership on firm value and corporate governance practice.

Theoretical Model

This research assumed that when the controlling shareholders divert firm asset as π for personal interest, they can't use all of π for their personal interest. However, part of π they divert will be spent as cost (Johnson et al., 2000a; Shleifer and Wolfenzon, 2002; La Porta et al., 2002; Durnev and Kim, 2005). The cost intended to divert firm asset for their personal interest are penalty probability from the government, lost of reputation, or bribe used to steal firm asset for regulator or politician (Burnev and Kim, 2005).

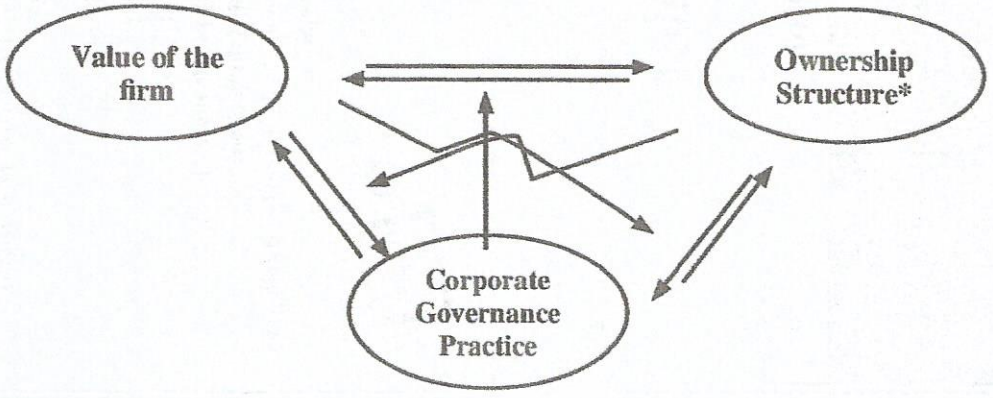
It is also assumed that the greater the expropriation level of firm asset by the controlling shareholders, the greater is the percentage of asset spent for cost of diverted part (Johnson et al., 2000a; La Porta et al., 2002; and Durnev and Kim, 2005). If the expropriation level increases, the expropriation action can easily be recognized by other parties. Therefore, at certain level, cost of expropriating firm asset is higher than the benefit received by the controlling shareholders, so that the firm asset expropriation will stop.

After Demsetz (1983) argued that firm ownership structure must be assumed as endogenous result, Demsetz and Lehn (1985) proved the endogenous characteristic with empirical data. However, while investigating the relationship between ownership structure and firm value, Morck et al. (1988) and McConnel and Servaes (1990) did a research by assuming ownership structure as exogenous variable. On the other hand, Kole (1996) discovered inverted causality between ownership structure and firm value relationship. Chen and Steiner (2000) also argued that managerial ownership and firm value are determined mutually in a system.

Demsetz and Villalonga (2001) restated endogenous characteristic in firm value and ownership structure relationship. Zhou (2001) also said that though ownership structure is unstable, but if it is still non-systematic, the recommended right method is using instrumental variable like Himmelberg et al. (1999). Therefore, in this research, we assume that ownership structure variable and firm value are endogenously related.

Endogenous relationship between firm

Figure 1. Simultaneous relationship between Corporate Governance Practice, Ownership Structure, and Firm Value.



* Ownership Structure was estimated by cash-flow rights, wedge, and percentage of ownership structure FBIB

value and corporate governance practice was investigated by Black et al. (2003) and Durnev and Kim (2005). These two variables were determined with endogenous characteristic because high value firm can choose good corporate governance practice to give positive signal to the market. Moreover, firm practicing good corporate governance was capable of increasing intrinsic firm value (Black et al., 2003).

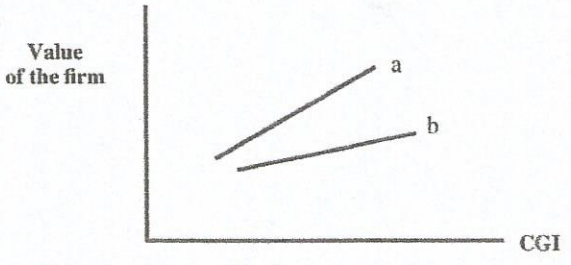
Parties participating in controlling the firm have power and incentive to determine corporate governance practice and ability to prevent changes in corporate governance practice (Bebchuk & Roe, 1999). Only if corporate governance practice is implemented, it would be able to influence the ownership structure. Due to simultaneous relationship between the three variables, this research will assume that the relationship between firm value, corporate governance practice and ownership structure variables are simultaneously determined. The relationship between these three variables can be described in Figure 1. Due to simultaneity between variables, if we use OLS, the coefficient of simultaneous regression result between firm value, corporate governance practice and ownership structure will be overstated. Therefore, the appropriate method used in this research is the simultaneous equation used by Black et al. (2003) and Durnev & Kim (2005).

Wedge (the difference between control rights and cash-flow rights) influences negatively on firm value (Claessens et al., 2002; and Lins, 2003). If wedge is high, the ultimate controlling shareholders have stronger incentive to expropriate minority shareholders (Claessens et al., 2002). Therefore, firm value and wedge have negative relationship (La Porta et al., 2002; Claessens et al., 2000 and 2002).

Simultaneous relationship happens between firm value and corporate governance practice because high value companies have the ability to choose doing good corporate governance practice, which will increase their firm value (Black, Jang, et al., 2003). On the other hand, firm implementing good corporate governance practice will also have high firm value (Johnson et al., 2000a; La Porta et al., 2002; Claessens et al., 2002). However, how big the influence of corporate governance practice is on firm value will depend on the wedge. If wedge is low, the incentive from the ultimate controlling shareholders to expropriate is also low. Hence, corporate governance practice is really used by the ultimate controlling shareholders to maximize the firm value. Therefore, if wedge is low, the influence of corporate governance practice on firm value will be high.

However, if wedge is high, the incentive from the ultimate controlling shareholders to expropriate on minority shareholders will also be high. Therefore, corporate governance practice is only used to show off. So, if wedge

Figure 2. Influence WEDGE to the relationship between firm value and corporate governance practice.



a: Low wedge firm group; b: High wedge firm group

is high, the positive influence of corporate governance practice on firm value will become weak. This relationship is depicted as b in Figure 2.

H1: Positive relationship between Tobin's Q proxy and CGI is higher if wedge is low

Nevertheless, the percentage of FBIB ownership will not bring positive influence on firm value. It happened because blockholders group do not bring benefit as foreign shareholders in know-how, technology and professional manager (Wiwattanakantang, 2001). Besides, the percentage of FBIB ownership doesn't act as corporate governance alternative system. Though they were listed as foreign blockholders, they were really controlling shareholders, or have the same interests with controlling shareholders. Therefore, the percentage of FBIB ownership no longer acts as corporate governance alternative system, but does expropriating on minority shareholders. Based on this argumentation, we can explain the next proposition.

H2 : The percentage of FBIB ownership will bring lower influence to Tobin's Q proxy than the percentage of FBLOK ownership

According to Lins (2003), the presence of blockholders outside managerial group brings positive influence on implementation of corporate governance practice. Foreign blockholders coming from more developed countries could ask for better implementation of corporate governance practice like companies in the developed market. For example, they ask for higher and open information level and also tighter supervision (Doidge et al., 2004)

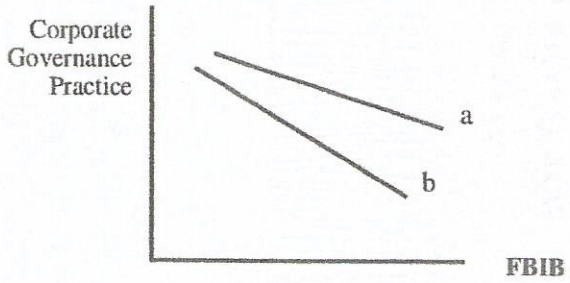
However, the percentage of FBIB ownership has no motivation like foreign blockholders on increasing corporate governance practice. Though listed as foreign blockholders, they actually come from Indonesia. Moreover, they are controlling shareholders or have the same interest with controlling shareholders. Therefore, the implementation of good corporate governance could block out their interest, if they want to expropriate on minority shareholders. Therefore, the percentage of FBIB ownership has lower motivation than foreign blockholders on implementing good corporate governance practice.

H3 :The percentage of FBIB ownership will bring lower influence on CGI than the percentage of FBLOK ownership

If the percentage of FBIB ownership acts as controlling shareholders or acts in particular relationship with the controlling shareholders, this thing will make them having high motivation expropriate on minority shareholders. They do not want to implement good corporate governance practice. Therefore, the relationship between the percentage of FBIB ownership and corporate governance practice will become negative.

Nonetheless, that negative relationship will be influenced by the wedge level. If wedge is low, they have low motivation to prevent the implementation of good corporate governance practice and don't bring much influence on it better than their own percentage. So, though there's an increase in the percentage of FBIB ownership, it will not bring negative influence on corporate governance practice if wedge is low, as seen on line a in Figure 3. According to Khanna and Palepu's research (1999) and Wiwattanakantang (2001), the presence of foreign blockholders as controlling shareholders brings positive influence on firm value. This is true because firm controlled by foreigners has specific benefit like superior know-how, technology,

Figure 3. Influence wedge to relationship between corporate governance practice and percent of ownership FBIB



a: low wedge firm group; b: high wedge firm group

professional managers, investment promotion from the government (Wiwattanakantang, 2001). According to Chibber and Majumdar (1999) and Sarkar and Sarkar (2000), firm controlled by foreign blockholders is better in implementing corporate governance practice. When corporate governance is not implemented well in the emerging markets, blockholders, outside managerial group, act as alternative corporate governance system (Lins, 2003).

If wedge is high, but the percentage of FBIB ownership is low, it will not influence corporate governance practice. Nevertheless, by growing the percentage of FBIB ownership, it could bring more negative influence on corporate governance practice. Hence, the higher the percentage of FBIB ownership is, it could bring more negative influence on corporate governance practice if the wedge is high, as seen on line B in Figure 3.

H4 : Negative relationship between CGI and the percentage of the FBIB is higher if wedge is high.

Methodology

Data

The data source used were Indonesian Capital Market Directory, the annual financial report of public firms from 2001-2003, the price of daily stocks from Jakarta Stock Exchange online database from 2001-2003, and the prospectus from 1994-2004.Leveling stock ownership data, particularly from private companies as blockholders above 5 % for public firm at JSX , is searched in Tambahan Berita Negara Republik Indonesia and Laporan Data Perubahan Anggaran Dasar from department of law and human rights. If the ownership structure or change on ownership structure in document (2003) is not available, the ownership structure from the previous records on ownership structure, are used.

The sample was 338 public companies at JSX at December 31, 2003, 204 companies did not get CGI were excluded. Then, 11 companies have not found ownership structure data were also excluded. So the total firms used were 123 public companies in JSX. The 123 sample companies consist of various kinds of industrial sector as seen in Table 1. The industrial sector division is based on Jakarta Stock Exchange Industrial Classification (JASICA).

Variable Definition

Ownership Structure

Shareholders having more than 5 % stock from companies are tested from cash-flow rights and control rights aspect. This research doesn't differentiate individual within a family and family group used in analysis unit, like

Table 1. Sample base on JASICA

Industry	Sample	Percent
Agriculture	3	2,44
Mining	5	4,07
Basic and Chemical Industry	19	15,45
Other Industry of Manufacturing	11	8,94
Consumer Goods Industry	8	6,50
Property and Real Estate	4	3,25
Infrastructure, Utility and Transportation	7	5,69
Banking	37	30,08
Trading, Services, and Investments	29	23,58
Total	123	100,00

Claessens et al. (1999b, 2000 and 2002), and Johnson et al. (2000a). The searching process for family relationship of shareholders was based on family name only. Therefore, the family identification process as ultimate shareholders and the identification result have some weaknesses.

In this research, blockholders fulfilling these next criteria will be FBIB blockholders. (1) Foreign companies, becoming blockholders of public company after 1997 and doing business outside real sector, become blockholders for JSX public companies. (2) Blockholders come from companies established by regulation in countries such as British Virgin Islands, Mauritius, Bernad in Malaysia, where they are not asked to report capital source and ownership structure. In this research, the percentage of FBIB ownership will be measured by firm cash-flow rights owned by FBIB, which is % FBIB.

In this research, foreign blockholders are non-Indonesian blockholders excluding FBIB blockholders (FBLOK). The percentage of foreign blockholders ownership will be measured by firm cash flow rights owned by foreign blockholders excluding FBIB, which is % FBLOK.

The conglomerate firm influence on firm value hasn't been conclusive yet. Chan and Choi (1988) discovered that the performance of companies affiliated with *chaebol* in South Korea is better than those not affiliated. Nevertheless, Joh (2003) supported with data in South Korea from 1993-1997 discovered that the performance of companies affiliated with *chaebol* is worse than that of independent ones. Choi et al(2001) (quoted in Claessens and Fan, 2003) discovered that there is no difference in liberalization influence between business group and non-business group on trade volume and stock yield covariance.

Value of the Firm

Tobin's Q calculated with ratio between market value of assets and replacement cost of assets is generally used as firm value measurement in the research on the relationship between firm value and ownership structure. In order to calculate Tobin's Q, the information about firm asset replacement cost is needed. Nevertheless, when Tobin's Q is calculated, many researchers calculate it with various formulas due to various data limit.

When the firm value is calculated with data from public firm at JSX, the data for firm asset replacement cost, whether for stock or total liabilities, can not be found. On the other hand, total liabilities market value can not be found too. In this research, the firm value will be defined like Klapper and Love (2004) and Durnev and Kim (2005), which is the ratio between (market value of stock and total liabilities) and (book value of total assets). Market value of stock (market capitalization) is calculated by multiplying

Table 2. Variable Definition

Variable	Explanation
CASH	Cash flow rights are parts of ultimate shareholders ownership. In this research, there is no difference between individual within a family and family group used as analysis unit as Claessens et al. (1999b, 2000, and 2002), and Johnson et al. (2000a), La Porta et al. (1999), Mitton (2002), and Lemmon & Lins (2003).
CONTROL	Control rights are controller's rights coming from the stock ownership. Total control rights will be calculated from the addition of the weakest network in voting rights, like Claessens et al. (1999b and 2002), Johnson et al. (2000a), La Porta et al. (1999, 2002), Mitton (2002), and Lemmon & Lins (2003).
FBIB	FBIB are blockholders on behalf of: 1) foreign companies established after 1997 and do business outside real sector and/or 2) blockholders coming from companies established on regulation from certain countries like British Virgin Island and Mauritius not being asked to report the capital source and the ownership structure.
%FBIB	The percentage of FBIB ownership calculated from firm cash flow rights owned by FBIB blockholders.
FBLOK	Foreign blockholders are non-Indonesian blockholders excluding FBIB.
%FBLOK	The percentage of foreign blockholders ownership calculated from firm cash flow rights and owned by pure foreign blockholders.
DWEDGE	Wedge is the difference between control rights and cash flow rights. Wedge is used as a dummy variable. If wedge is higher than the third quartile in sample, it will become one. If wedge is lower than the third quartile in sample, it will become zero.
PTOBIN	Tobin's Q proxy is calculated from the ratio between (market value of shares and book value of total liabilities) and (book value of total assets).
CGI	Corporate governance practice is corporate governance practice level measured by index. In this research, corporate governance practice will be defined with corporate governance index developed by Arsjah (2005).
BETA	Firm risk calculated from market model systematic risk with weekly six-month stock data.
KONG	Firm affiliated with business group or isn't defined with pyramidal level implemented in ownership structure in order to find cash flow rights for controlling shareholders.
SIZE	Firm size calculated from log of sales.
AGE	Firm age proxy with log (firm age since establishment)
GS	The opportunity of growth calculated from average sales growth for 3 years or average total assets for 3 years.
FIN	Industry is only divided into two kinds, which are financial industry and non-financial industry. If a firm is categorized into financial industry group, it will be valued 1 and if not 0.
LEV	Leverage calculated from the ratio between (total book value of debt/total assets – average industrial leverage) and (average industrial leverage), that is LEV.
INTAN	Intangible assets calculated from advertisement cost/sales.

stock amount and stock price at the end of 2003. In this research, the firm value, which is Tobin's Q proxy, will be noted as PTOBIN.

Corporate Governance Index

GCG index used in this research is developed by Arsjah (2006). It describes the whole practical aspects of Indonesian corporate governance, which are accountability, fairness, responsibility, social responsibility, and transparency. Table 2. summarizes all variables used in this research.

Empirical Model

In order to examine the hypothesis on the relationship between firm value, corporate governance and ownership structure, two-stage-least square will be used because CASH, PTOBIN, and CGI are the endogenous variables. There are two equation systems that will be tested:

$$PTOBIN_j = \alpha_{11} + \beta_{11}CASH_j + \beta_{12}CGI_j + \delta_{11}\%FBIB_j + \delta_{12}\%FBLOK_j + \delta_{13}LEV_j + \delta_{14}INTAN_j + \delta_{15}BETA_j + \delta_{16}GS_j + \varepsilon_{1j} \quad (4\text{-}1a)$$

$$CASH_j = \alpha_{21} + \beta_{21}PTOBIN_j + \beta_{22}CGI_j + \delta_{21}KONG_j + \delta_{22}FIN_j + \delta_{23}BETA_j + \delta_{24}GS_j + \delta_{25}AGE_j + \varepsilon_{2j} \quad (4\text{-}2a)$$

$$CGI_j = \alpha_{31} + \beta_{31}CASH_j + \beta_{32}PTOBIN_j + \delta_{31}\%FBIB_j + \delta_{32}\%FBLOK_j + \delta_{33}SIZE_j + \delta_{34}LEV_j + \delta_{35}FIN_j + \varepsilon_{3j} \quad (4\text{-}3a)$$

PTOBIN, CASH and CGI are endogenous variables in simultaneous equation. Variables except PTOBIN, CASH and CGI, like %FBIB, %FBLOK, DWEDGE, DWEDGE*CGI interaction variables, DWEDGE*%FBIB, and other controlling variables, are exogenous variables in the equation system.

Two equation groups are formed, which are (4-1a), (4-2a) and (4-3a) equation set and (4-1b), (4-2b) and (4-3b) equation set. These two equation sets are formed because of DWEDGE variable. When FBIB and FBLOK group arise as ultimate shareholders, wedge of the percentage of FBIB and FBLOK ownership couldn't be calculated. This is caused by the data of firm ownership structure established on non-Indonesian regulation couldn't be found. Therefore, when the relationship between wedge and PTOBIN (CGI) are estimated, firm having FBIB or FBLOK as its biggest ultimate shareholders has to be excluded from sample. In equation (4-1b) and (4-3b), there is no DWEDGE variable, because it is assumed that the intercept of %FBIB and CGI is equal, without depending on DWEDGE group.

Those two empirical models will only be used as early empirical model. Then, while observing basic theory, the best empirical model will be chosen based on Akaike Info Criterion. The result will be mainly assumed based on reduction model.

With the adding variable DWEDGE, equation system become like that.

$$PTOBIN_j = \alpha_{41} + \beta_{41}CASH_j + \beta_{42}CGI_j + \delta_{41}CGI_j * DWEDGE_j + \delta_{42}LEV_j + \delta_{43}FIN_j + \delta_{44}BETA_j + \delta_{45}GS_j + \varepsilon_{4j} \quad (4\text{-}1b)$$

$$CASH_j = \alpha_{51} + \beta_{51}PTOBIN_j + \beta_{52}CGI_j + \delta_{51}KONG_j + \delta_{52}FIN_j + \delta_{53}BETA_j + \delta_{54}GS_j + \delta_{55}AGE_j + \varepsilon_{5j} \quad (4\text{-}2b)$$

$$CGI_j = \alpha_{61} + \beta_{61}CASH_j + \beta_{62}PTOBIN_j + \delta_{61}\%FBIB_j + \delta_{62}\%FBLOK_j + \delta_{63}\%FBIB_j*DWEDGE_j + \delta_{64}SIZE_j + \delta_{65}LEV_j + \delta_{66}FIN_j + \varepsilon_{6j} \quad (4\text{-}3b)$$

Empirical Results

The Characteristic of Ownership Structure

Outliers are identified with single variant method toward each variable. If endogenous variable, which are PTOBIN, CASH, and CGI, has data outside ±3 deviation standard interval, the data will be assumed as outliers and expelled. Outliers coming from exogenous variables used in this research, which are %FBIB, %FBLOK, and DWEDGE, are identified with the same method. Outliers from control variable are also identified with the same method, but expelled if it is detected as outliers with more than two variables, due to relatively small sample size. With this method, outliers detected from sample size are nine items, which is 7.32%. Therefore,

Table 3. Descriptive Statistic for CASH, CONTROL, wedge

Variable	mean	Standard Deviation	1st Quartile	Median	3rd quartile	Max	Min
CASH	43,34	22,82	22,52	42,05	56,78	99,10	0,0000
CONTROL	49,51	21,73	38,26	50,00	61,47	100	0,0000
Wedge	7,85	10,84	00,00	1,17	15,51	43,75	0,0000

* CASH is cash flow rights of ultimate majority shareholders, CONTROL is control rights of ultimate majority shareholders, and wedge is the difference between cash flow rights and control rights.
** CASH and CONTROL is estimated based on 114 firms, on the other hand wedge is estimated based on 79 firms.

Table 4. Distribution of the Ultimate Majority Shareholders in JSX.

A 10 % cutoff								
		Diversified	Family	Government	FBIB	FBLOK	Other institution	More then 2
sample	114	2	56	12	9	16	2	17
proportion	100 %	1.75 %	49.12%	10.53 %	7.90 %	14.04 %	1.75%	14.92 %
B.20% cutoff								
sample	114	13	57	11	11	16	2	4
proportion	100 %	11.40 %	50.00 %	9.65 %	9.65 %.	14.04 %	1.75 %	3.51%
C.30% cutoff								
sample	114	16	54	11	12	17	2	2
proportion	100 %	14.04 %	47.37 %	9.65 %	10.53 %	14.91 %	1.75%	1.75 %

*Diversified firms is defined if the firm does not have blockholders who have more than each cutoff point ownership based on cash flow rights.

sample amount used in this research are 114 public companies at JSX.

Table 3 shows basic statistics for control rights, cash flow rights and wedge from sample. The average of control rights (cash flow rights) from the biggest ultimate shareholders reaches 49.51% (43.34%) with median 50.00% (42.05%).

The average wedge variable is 7.85% with median 1.17%. Wedge variable will remain zero until the first quartile, which means there's no difference between control rights and cash flow rights. However, the maximum wedge variable is 43.75%. Meaning to say, the average ratio between cash flow and control rights is 0.882 (median 0.858). The average of CASH is 43.34% and the average of CONTROL is 49.51%.

If the above results are compared with Claessens et al. (1999b) the cash flow right (control right) increased. It means that the concentration of ownership structure increases in 2003 compared to that in 1996. However, the stagnant ratio between cash flow rights and control rights shows the probability of expropriation on minority shareholders remains the same in 1996 and 2003.

Table 4 shows the distribution of ultimate shareholders' cash flow rights. Panel A from Table 4 uses 10% cut off criteria to determine ultimate shareholders, like Claessens et al. (2000b) and La Porta et al. (1999 and 2002).

Even though the cut off rate increased from 10% until 30%, family group will still have the biggest proportion with 49.12% (10% cut off point) and 47.37% (30% cut off point). When 30% cut off point is used, FBLOK follows family position with 14.91%, FBIB 10.53%, and government 9.65%.

By increasing cut off point, the proportion of FBIB, FBLOK and government hasn't changed a lot, but the firm proportion owned by family and more than two kinds of ultimate shareholders are decreasing. Meanwhile, the spread firm proportion increases from 1.75% with 10% cut off point to 14.04% with 30% cut off point.

The result of Claessens et al. (1999b) explained that if 20% cut off point is used; the family blockholders ownership reaches 71.5%, government 8.2%, and spread firm only 5.1%. If that result is compared with the research result of Claessens et al. (1999b), the family group is still dominating, but decreasing, while the government proportion hasn't changed alot. Meanwhile, the proportion of diversified firms increases.

The above Table also shows that the domination of family group as ultimate shareholders decreases, but still dominating in firm ownership structure at JSX, just like other Asian countries. This happens because family, as ultimate shareholders, has the power and incentive to prevent change of ownership structure. If change happens in the ownership structure, they will lose their personal benefit in control, though that is efficient (Bebchuk & Roe, 1999). Moreover, the decrease of family ownership should be assumed carefully, because of %FBIB. If %FBIB is part of family ownership, the domination of family ownership will not decrease much, but only change name of the ownership structure.

Table 5 shows the governance group has the highest concentration level which is averagely 68.87%. The average ultimate shareholdersfromeachFBIBandFBLOKgroup are 55.63% and 48.97%. Meanwhile, family ownership averagely reaches 44.41% which is the lowest between ultimate shareholders group. The highest concentration of government ownership may be caused by the beginning of privatization, so that much BUMN ownership, particularly banking, is still being controlled by government.

Table 6 shows PTOBIN difference between group that has ultimate shareholders and diversified firms. The average PTOBIN (1.3533) from firm group having ultimate shareholders is higher than those who haven't (1.1824), but the difference is statistically insignificant. The result concluded that the presence of more than 30% ultimate shareholders doesn't bring higher firm value.

The average PTOBIN 1.6020 from government group is the highest value, but significantly indifferent from diversified firms. However, the median between the government group and diversified firm

Table 5. Ultimate Shareholders Statistic with *cut off point* 30%

Ownership Concentration				
	sample	Mean	Std Dev	Median
Total sample	114	43,34	0,2282	42,05
Firms have blockholders	96	48,77	0,2044	45,03
Family	54	44,41	0,1924	42,81
Government	11	68,87	0,2089	65,00
FBLOK	17	48,97	0,1728	42,91
FBIB	12	55,63	0,1728	52,09
Diversified firms *	16	14,38	0,0849	13,90

* Firms are defined as diversified firm, if they have no majority shareholder more than 30%.
1: Difference between groups was tested by two-tale t-statistic
2: Difference between groups was tested by Mann-Whitney nonparametric test.

Table 6. PTOBIN statistic base on ultimate shareholders groups with *cut off point* 30%

PTOBIN				
	Sample	Mean[a]	Std Dev	Median[b]
Total sample	114	1,1337	1,0270	1,0285
Firms have blockholders	96	1,3232	1,0578	1,0265
Family	54	1,2536	0,7609	0,9993
Government	11	1,6026	1,0709	1,1301*
FBLOK	17	1,5814	1,8885	1,1062
FBIB	12	1,1534	0,6394	0,9997
Diversified firms **	16	1,2630	0,8686	1,0408

* significant in 10%.
** Firms are defined as diversified firms, if they have no majority shareholder more than 30%.
a: Difference between groups was tested by two-tale t-statistic
b: Difference between groups was tested by Mann-Whitney nonparametric test.

Table 7. CGI statistic base on ultimate shareholders groups with *cut off point* 30%

CGI				
	sample	Mean[a]	Std Dev	Median[b]
	114	0,6704	0,1014	0,6789
Total sample	96	0,6993	0,1021	0,6790
Firms have blockholders	54	0,6480	0,0946	0,6538
Family	11	0,7480*	0,0843	0,7538*
Government	17	0,6841	0,1152	0,6844
FBLOK	12	0,6664	0,1066	0,6783
FBIB	16	0,6765	0,1002	0,6869

* significant in 10%.
** Firms are defined as diversified firms, if they have no majority shareholder more than 30%.
a: Difference between groups was tested by two-tale t-statistic
b: Difference between groups was tested by Mann-Whitney nonparametric test.

group differs significantly within 10%. However, that doesn't directly mean that all state owned firms performed well. It happen partly because when state owned firms go public, government chooses well-performed firms. The average PTOBIN from FBLOK group reaches 1.5814, but the difference with diversified firms is insignificant. The average TOBIN from FBIB group is lowest with average 1.1534 from all groups, including the diversified firms.

Table 7 shows the CGI difference between the different ultimate shareholders firm groups and diversified firm group. This comparison uses 30% ultimate cash flow rights as cut off point between those two groups. The mean CGI (0.6993) from the ultimate shareholders firm group is higher than the average CGI of diversified firm group (0.6765), but statistically insignificant. The mean CGI (0.7430) from government blockholders group is the highest. Median CGI from government blockholders group and diversified firm group are different significantly at 10%.

The mean CGI from FBIB group is 0.6664. The mean CGI from the family group is 0.6480. Though the mean CGI from the family group differs insignificantly with diversified firm group, the mean CGI of the

family group is the lowest between the group that has the ultimate shareholders.

The Simultaneous Relationship between PTOBIN, CASH, and CGI

The Simultaneous Relationship between PTOBIN, CASH, and CGI based on full Sample

Table 8 shows the simultaneous relationship between PTOBIN, CASH, and CGI. When PTOBIN becomes dependent variable, CASH coefficient turns insignificantly negative. This result is different with the research result of Claessens et al. (2000b) with data of nine East Asia countries, including Indonesia and Wiwattanakantang's research (2001) with Taiwan data. The research result of Claessens et al. and Wiwattanakantang stated that CASH brings positive and significant influence to firm value with OLS method. This result might be caused by the usage of different methods in these researches. Meanwhile, this study brings the same result with the research result of Demstez and Villalonga (2001), where the ownership amount of the big five blockholders is used as proxy the concentration of ownership.

CGI doesn't bring significant influence to PTOBIN. This result is different with that of Black et al. (2003) with Korean data, Klapper and Love (2004), Durnev and Kim (2005) with emerging countries data, and Black et al (2005) with Korean panel data, mentioning that CGI brings positive and significant influence to firm value. CGI

Table 8. Simultaneous effects between PTOBIN, CASH, and CGI with full sample

		PTOBIN		CASH		CGI
	Hip	(1)	Hip	(2)	Hip	(3)
PTOBIN			+	- 0,0300 (0,275)	+	0,0499 (0,000)***
CASH	+	- 0,6106 (0,782)			+	0,1886 (0,008)***
CGI	+	1,3898 (0,254)	+	0,8656 (0,015)**		
%FBIB	-	0,1231 (0,613)			-	- 0,0510 (0,158)
%FLOK	+	0,7965 (0,195)			+	- 0,0789 (0,058)*
BETA			+/-	-0,0476 (0,003)***		
FIN			-	0,0787 (0,039)**		
GS			+/-	-0,0476 (0,003)***		
INTAN	+	9,7244 (0,028)**				
LEV					+/-	- 0,0422 (0,011)**
KONG			-	-0,0548 (0,002)***		
SIZE					+	0,0264 (0,000)***
Intercept		0,3830 (0,388)		0,0606 (0,404)		0,1894 (0,000)***
Adjusted R squares		0,1718		0,1876		0,2961 8,93***
F-statistic		5,69***		5,35***		

* significant in 10%, ** significant in 5%, and *** significant in 1% with one-tail test. ( ): p-value.

Table 9. Different Effects %FBIB and %FBLOK to PTOBIN

Wald Test:			
Null Hypothesis:	Effects %ASTINDO = %BLOCKA		
F-statistic	0,575	Probability	0,4498
Chi-square	0,575	Probability	0,4482

might not bring significant influence to PTOBIN because perhaps companies might not have implemented corporate governance practice effectively, even though following the regulation. For instance, independent commissioners are obliged to 20% of Good Corporate Governance Code, but their nomination processes and roles are still being questioned (World Bank, 2004).

%FBIB doesn't bring significant influence to PTOBIN. The result shows that %FBIB doesn't bring expropriation on minority shareholders. Meanwhile, % FBLOK coefficient turns positive, but doesn't bring significant influence to PTOBIN. The result of %FBLOK variable is different with the research result of Wiwattanakantang (2001) with Thailand data mentioning foreign blockholders ownership bring positive and significant influence to PTOBIN. This result might happen because foreign blockholders ownership doesn't bring expected benefit like know-how superior technology, professional manager, and better corporate governance practice. The same as research result of Chibber & Majumdar (1999), the FBLOK superior only happens when the ownership level is higher than 50%. For Table 8. results were gained with two stage least square CGI, CASH, and PTOBIN as endogenous variable, and %FBIB, BETA, %FBLOK, GS, INTAN, FIN, KONG, LEV, SIZE, and AGE were used exogenous variables in (1), (2), and (3) Total sample is 114 company (2003). Variable PTOBIN is estimated by (market value of shares+ total liabilities)/book value of total assets; CASH is proportion ultimate majority ownership based on cash flow rights; CGI is index corporate governance; %FBIB is percent cash flow rights for blockholders FBIB; %FBLOK is percent cash flow rights for FBLOK; BETA is systematic risk estimated with market model; GS is mean growth rate for sales during tree years. INTAN Intangible assets calculated from advertisement cost/sales; FIN is dummy variable. If a firm is categorized into financial industry, it will be valued 1 and if not 0; LEV is calculated from the ratio between (total book value of debt/ total assets – average industrial leverage) and (average industrial leverage), that is LEV; KONG is defined based on pyramidal level implemented in ownership structure in order to find cash flow rights for controlling shareholders; SIZE calculated from log of sales; and AGE is estimated with log firm age since establishment.

Table 9 reports Wald test result examining the coefficient difference between %FBIB and %FBLOK based on models at column (1) in Table 8. The result shows that the coefficient of %FBIB and %FBLOK is not different. This result doesn't support hypothesis 2. The insignificant result of %FBIB and %FBLOK influence to PTOBIN might be caused by the FBIB definition limit. However, there is a chance that FBLOK is included into FBIB group.

When CASH becomes dependent variable, PTOBIN variable does not bring significant influence to CASH. This shows the same result as research result of Demsetz and Villalonga (2001). They said that PTOBIN turns negative and insignificant to CASH with 2SLS method. CGI variable brings positive influence to CASH and significant at 1% and 5%. Based on that result, it could be concluded that higher CGI results to higher

Table 10. Different Effects %FBIB and %FBLOK to CGI

Wald Test			
Null Hypothesis:	Effects %ASTINDO = %BLOCKA		
F-statistic	0.075	Probability	0.7845
Chi-square	0.075	Probability	0.7840

ownership concentration toward ultimate shareholders. Variable KONG brings negative influence and significant to CASH at 1%. The negative influence happens because companies included in the business group don't need more higher cash flow rights in order to control firm in decision processes, compared to that excluded in the business group. Through cross-holding or pyramidal structure, firm included in the business group could control the decision-making process with relatively lower ownership level than firm excluding in the business group.

FIN brings positive influence significantly at 5% to CASH. This coefficient happens because in Indonesian banking industry, there are some government owned banks having high government ownership concentration. Besides, GS and BETA variables bring negative influence significantly toward concentration level at 1% rate.

When CGI variable becomes dependent variable, PTOBIN brings positive influence and significant at 1% toward CGI. If the result is combined with column (1) which CGI doesn't bring significant influence toward PTOBIN, it could be concluded that firm with higher PTOBIN has good CGI because good corporate governance practice could increase the next firm value (Black, Jang, & Kim, 2003). The result from column (3) in Table 8. is different with the research result of Durnev & Kim (2005), exposing that PTOBIN coefficient turns positive toward CGI insignificantly. CASH brings positive influence and significant at 1%. This result concludes that the ownership concentration toward ultimate shareholders brings positive influence to increase CGI. This result might happen because when a firm has high ownership concentration, the firm wants to give positive signal to the market by increasing CGI. SIZE variable brings positive influence and significant toward CGI at 1%. This result concludes that the bigger the firm size is, the better the corporate governance practice does.

The SIZE variable shows the same result to research result of Black, Jang & Kim (2003) with Korean data. LEV brings negative influence to CGI significantly at 5%. This result concludes that the increasing leverage will bring negative influence toward CGI, though high leverage generally brings tighter supervision from the debtholders party. %FBIB doesn't bring significant influence toward CGI. Meanwhile, %FBLOK coefficient turns negative and %FBLOK brings significant influence at 10%. The coefficient change of %FBLOK might happen because of unstable data, containing many zero in research and correlation with other variables.

The Wald test result examining the coefficient difference between %FBIB and %FBLOK at column (3) is insignificant, as seen in Table 10. The data does not support hypothesis 3. Hypothesis 3 is that %FBIB will bring lower influence toward %FBLOK on corporate governance practice. Nevertheless, empirical result states that there is no different influences between %FBIB and &FBLOK toward CGI for firm at JSX. The insignificant influence between %FBIB, %FBLOK, and PTOBIN might be caused by FBIB definition limit. There is a chance that limitation of FBIB definition may includes some FBLOK.

The Simultaneous Influence between

Table 11. Simultaneous effects between PTOBIN, CASH, and CGI without firm, where FBIB and FBLOK become the largest Ultimate Shareholders

		PTOBIN		CASH		CGI
	Hip	(1)	Hip	(2)	Hip	(3)
PTOBIN			+	0,1230 (0,092)*	+	0,0334 (0,084)*
CASH	+	0,8380 (0,225)			+	0,0334 (0,253)
CGI	+	- 2,2104 (0,139)	+	0,9510 (0,023)**		
DWEDGE*CGI	-	-0,5589(0,079)*				
%FBIB					-	-0,1488 (0,060)*
DWEDGE*%FBIB					+	-0,1901 (0,191)
BETA	+/-	0,2421(0,041)**	+/-	-0,0774(0,004)***		
GS			+/-	-0,2348 (0,018)**		
INTAN	+	6,1235 (0,090)*				
LEV					-	-0,0493(0,005)***
KONG			-	-0,0556(0,010)***		
SIZE					+	0,0287 (0,000)***
Intercept		2,2706(0,045)**		-0,1253 (0,354)		0,2410 (0,000)***
Adjusted R squares		0,0938		0,1976		0,3020
F-statistic		2,61**		4,84***		6,63***

* significant in 10%, ** significant in 5%, and *** significant in 1% with one-tail test. ( ): p-value.

PTOBIN, CASH, and CGI without firm, where FBIB and FBLOK become the largest Ultimate Shareholders

After deducting 35 companies with FBIB and FBLOK as their ultimate shareholders, 79 companies sample are examined with two-stage-least squares by adding variable wedge. Data deduction on 35 companies had to be done because the firm wedge could never be found, if the ultimate shareholders are FBIB or FBLOK. This happens because they are foreign blockholders not having the obligation to report their firm ownership structure to Indonesian government.

For PTOBIN variable, CGI variable coefficient turns negative, but insignificant at column (1) in Table 11, DWEDGE*CGI coefficient is significant at 10%. The result concluded that the CGI influence on PTOBIN between firm with higher wedge and low differs significantly. If wedge is higher, the CGI influence on TOBIN is lower, compared to low wedge. This result indirectly proves that though CGI is good, high wedge could also expropriate on minority shareholders. The result indirectly concludes that the big amount of wedge could bring incentive to ultimate shareholders to expropriate on minority shareholders.

CASH coefficient turns positive but brings insignificant influence toward PTOBIN. This shows different result with the

research result of Claessens et al. (2000) with nine East Asian countries data and Wiwattanakantang's research (2001) with Taiwan data. The research result of Claessens et al. and Wiwattanakantang state that CASH brings positive influence significantly toward firm value with OLS method. This might happen because the method used in this research is different with other researches above. The result shows likeness to that of Demsetz and Villalonga (2001) stating that CASH coefficient turns negative and brings insignificant influence to PTOBIN.

When CASH becomes dependent variable, it shows the same result with that in Table 8. (result based on all sample), besides FIN variable being expelled in the reduction model. PTOBIN doesn't bring significant influence on CASH, but brings significant influence at 10% toward CASH. This result is different from that stated in Table 8. Meanwhile, CGI brings positive influence significantly at 5% on CASH. KONG and GS variables still bring negative influence and significant at 5% on CASH, but the significant is decreasing compared the result from all sample. BETA variable still brings negative influence significantly at 1% on CASH. Based on that result, it can be concluded that variables influence on ownership structure concentration measured by CASH is as good as all sample or sample without FBIB and FBLOK as the largest ultimate shareholders. In other words, though firm having FBIB and FBLOK as their ultimate shareholders are out listed from the sample, variables influence on cash flow rights measured by CASH do not change.

For Table 11 results was gained with two stage least square CGI, CASH, and PTOBIN as endogenous variable, and %FBIB, BETA, %FBLOK,GS,INTAN,FIN,KONG,LEV,SIZE, AGE and DWEDGE were used exogenous variables in (1), (2), and (3) Total sample is 79 company (2003). Variable PTOBIN is estimated by (market value of shares + total liabilities)/book value of total assets; CASH is proportion ultimate majority ownership based on cash flow rights; CGI is index corporate governance; %FBIB is percent cash flow rights for blockholders FBIB; %FBLOK is percent cash flow rights for FBLOK; BETA is systematic risk estimated with market model; GS is mean growth rate for sales during three years. INTAN Intangible assets calculated from advertisement cost/ sales; FIN is dummy variable. If a firm is categorized into financial industry, it will be valued 1 and if not 0; LEV is calculated from the ratio between (total book value of debt/ total assets – average industrial leverage) and (average industrial leverage), that is LEV; KONG is defined based on pyramidal level implemented in ownership structure in order to find cash flow rights for controlling shareholders; SIZE calculated from log of sales; AGE is estimated with log firm age since establishment; and Wedge (control rights – cash flow rights) is dummy variable estimated if wedge more higher than 0.1551 was valued 1, otherwise 0.

When CGI becomes dependent variables, DWEDGE*%FBIB coefficient showing that the influence difference of %FBIB on CGI, between high and low wedge, becomes insignificant, though %FBIB variable itself brings negative influence significantly at 10% toward CGI. This result shows that hypothesis 4 stating that negative relationship between %FBIB and CGI will grow bigger, if wedge is high, isn't supported by data. So, %FBIB brings negative influence toward CGI, but by increasing wedge, it will not bring significant influence toward corporate governance practice. If the result is compared with the result of Table 8, it could be concluded that when %FBIB doesn't become the largest ultimate shareholders in firm ownership structure, it will bring negative influence toward CGI more than when %FBIB becomes the largest ultimate shareholders.

Table 12. Simultaneous effects between MTB, CASH, and CGI

		MTB		CASH		CGI
	Hip	(1)	Hip	(2)	Hip	(3)
MTB			+	0,0066 (0,405)	+	0,0197(0,001)***
CASH	+	- 1,4966 (0,206)			+	0,2060(0,004)***
CGI	+	7,2111 (0,073)*	+	0,6693 (0,076)*		
%FBIB	-	1,3026 (0,183)			-	- 0,0834(0,056)*
%FBLOK	+	0,8550 (0,283)			+	- 0,0520(0,136)
BETA			+/-	- 0,0538 (0,001)***		
GS			+/-	- 0,1788 (0,040)**		
INTAN	+	21,329 (0,016)**				
KONG			-	- 0,0627 (0,001)***		
SIZE					+	0,0217(0,000)***
Intercept		-3,0855(0,140)		0,1914 (0,270)		0,2793(0,000)***
Adjusted R squares		0,1835		0,1584		0,2886
F-statistic		5,67***		4,91***		9,44*

* significant in 10%, ** significant in 5%, and *** significant in 1% with one-tail test. ( ): p-value.

Sensitivity Analysis

The Simultaneous Relationship between MTB, CASH, and CGI

The Simultaneous Relationship between MTB, CASH, and CGI with All Samples

In order to discover the relationship sensitivity between PTOBIN, CGI and CASH, MTB (market-to-book value) variable is used to replace PTOBIN, because MTB is generally used for stating firm value. Because seven companies having negative book value of equity and two companies which MTB becomes outliers, the sample amount used in this sensitivity test are 105 samples.

The 2SLS regression result shown in Table 12 results that when MTB is used as dependent variable, all variables have the same direction. However, the influence of CGI variable on MTB becomes significant at 10%. The result concluded that the corporate governance practice measured by CGI brings positive influence to firm value measured by MTB. IKLAN brings positive influence toward MTB at 5%, the same as PTOBIN in Table 8.

On Table 12 results was gained with two stage least square CGI, CASH, and MTB as endogenous variable, and %FBIB, BETA, %FBLOK, GS, INTAN, FIN, KONG, LEV, SIZE, and AGE were used exogenous variables in (1), (2), and (3) Total sample is 81 company (2003). Variable PTOBIN is estimated by (market value of shares + total liabilities)/book value of total assets; CASH is proportion ultimate majority ownership based on cash flow rights; CGI is index corporate governance; %FBIB is percent cash flow rights for blockholders FBIB; %FBLOK is percent cash flow rights for FBLOK; BETA is systematic risk estimated with market model; GS is mean growth rate for sales during three years. INTAN Intangible assets calculated from advertisement cost/ sales; FIN is dummy variable. If a firm is categorized into financial industry, it will be valued 1 and if not 0; LEV is calculated from

Table 13. Simultaneous effects between MTB, CASH, and CGI without firm, where FBIB and FBLOK become the largest Ultimate Shareholders

		MTB		CASH		CGI
	Hip	(1)	Hip	(2)	Hip	(3)
MTB			+	0,0273 (0,148)	+	0,0044 (0,277)
CASH	+	1,5086 (0,339)			+	0,0171 (0,429)
CGI	+	-3,5169 (0,335)	+	0,7263 (0,076)*		
DWEDGE*CGI	-	-1,8949(0,007)***				
%FBIB					-	- 0,1557 (0,083)*
DWEDGE*%FBIB			+/-		-	- 0,1965 (0,177)
BETA			+/-	- 0,7888 (0,006)***		
KEUG			-	0,0768 (0,077)*	+	0,0298 (0,076)*
KONG			-	- 0,0556 (0,011)**		
GS			+/-	- 0,2234 (0,025)**		
IKLAN	+	24,232 (0,042)**				
SIZE					+	0,0251(0,000)***
Intercept		3,3501 (0,216)		0,1003 (0,388)		0,3359 (0,000)***
Adjusted R squares		0,1050		0,1723		0,2867
F-statistic		3,05**		3,43***		5,67***

* significant in 10%, ** significant in 5%, and *** significant in 1% with one-tail test. ( ): p-value.

the ratio between (total book value of debt/ total assets – average industrial leverage) and (average industrial leverage), that is LEV; KONG is defined based on pyramidal level implemented in ownership structure in order to find cash flow rights for controlling shareholders; SIZE calculated from log of sales; and AGE is estimated with log firm age since establishment.

When CASH becomes dependent variable, the influence of MTB toward CASH becomes insignificant, like PTOBIN. However, the influence of CGI toward CASH is till significant at 10%. Besides, KONG variable still brings negative influence significantly in 1% toward CASH. This result is the same with that of Table 8. Besides, ETA and GS variables also bring negative influence and significant toward CASH. This result is reflected in Table 8.

When CGI becomes dependent variable, MTB and CASH will bring positive and significant influence at 1% toward CGI. The result is the same as that of all samples, that is when PTOBIN is used as firm value proxy. SIZE and KONG variable is still significant at 1% rate and bring positive influence to CGI. %FBIB coefficient is negative and significant at 10%. %FBLOK coefficient is negative, but insignificant.

If the result on Table 12 are compared with 2SLS result and PTOBIN in Table 8, the results are different when MTB and CGI become dependent variables in the equation system. When MTB becomes dependent variable, CGI variable brings positive influence and significant in 10% toward MTB. When CGI becomes dependent variable, %FBIB brings negative influence toward CGI at 10%. Besides, the result related to hypothesis test is the same with that of PTOBIN used as firm value proxy.

The Simultaneous Relationship between MTB, CASH, and CGI without Firm, where FBIB and FBLOK as the Largest

Ultimate Shareholders

After deducting 34 companies having FBIB and FBLOK as their biggest shareholders from 105 companies, 71 firm samples were re-examined with two-stage-least squares on the simultaneous relationship between MTB, CASH, and CGI.

On Table 13. results was gained with two stage least square CGI, CASH, and MTB as endogenous variable, and %FBIB, BETA, %FBLOK, GS, INTAN, FIN, KONG, LEV, SIZE, AGE and DWEDGE were used exogenous variables in (1), (2), and (3) Total sample is 79 company (2003). Variable PTOBIN is estimated by (market value of shares + total liabilities)/book value of total assets; CASH is proportion ultimate majority ownership based on cash flow rights; CGI is index corporate governance; %FBIB is percent cash flow rights for blockholders FBIB; %FBLOK is percent cash flow rights for FBLOK; BETA is systematic risk estimated with market model; GS is mean growth rate for sales during three years. INTAN Intangible assets calculated from advertisement cost/sales; FIN is dummy variable. If a firm is categorized into financial industry, it will be valued 1 and if not 0; LEV is calculated from the ratio between (total book value of debt/total assets – average industrial leverage) and (average industrial leverage), that is LEV; KONG is defined based on pyramidal level implemented in ownership structure in order to find cash flow rights for controlling shareholders; SIZE calculated from log of sales; AGE is estimated with log firm age since establishment; and Wedge (control rights – cash flow rights) is dummy variable estimated if wedge more higher than 0.1551 was valued 1, otherwise 0.

When MTB becomes dependent variable in Table 13, CGI coefficient is negative but insignificant. Meanwhile, interaction variable coefficient, DWEDGE*CGI, becomes negative and significant at 1%. This result concluded that CGI does not bring significant influence towards MTB. However, the CGI influence on high and low wedge group toward MTB is different significantly at 1%. This shows the same result as PTOBIN is used as firm value proxy. This result supports hypothesis 1, stating that positive relationship between PTOBIN and CGI is higher, if wedge is low.

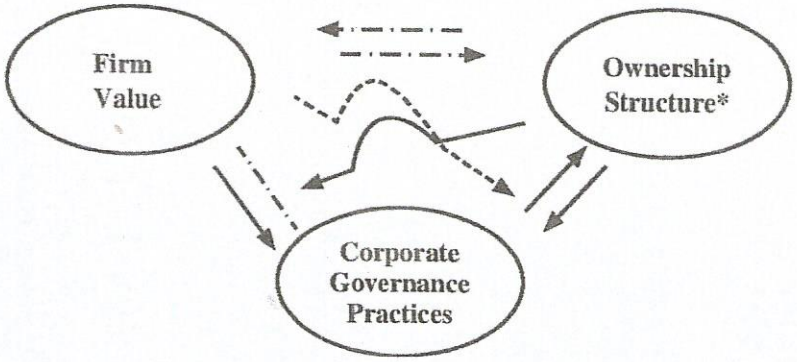
When CASH is used as dependent variable at column (2) in Table 13, KONG variable brings negative influence and significant at 5% towards CASH. BETA and GS variables bring negative influence and significant toward CASH at 1% and 5%. This shows the same result as CASH is used as firm value proxy, stated in Table 11. However, the CGI influence on CASH is positive, but the significant is decreasing from 5% to 10%.

When CGI is used as dependent variable, CASH and MTB coefficient turns positive, but insignificant anymore. Meanwhile, %FBIB brings negative influence toward CGI at 10%. Meanwhile, interaction variable coefficient, DWEDGE*%FBIB becomes insignificant. This concludes that %FBIB variable itself brings negative influence toward CGI in 10%, but there's no difference of %FBIB on CGI between high and low wedge firm group. The result still does not support hypothesis 4. Hypothesis 4 states that the negative relationship between %FBIB and CGI will increase when wedge is high. This shows the same result as PTOBIN used as firm value proxy. If the result is compared to that of PTOBIN, CASH, and CGI become endogenous variables, as seen in Table 11, the result is the same, unless CGI becomes dependent variables and MTB coefficient turns positive toward CGI, but insignificant.

Discussion and Conclusions

The study finds that firm value brings positive influence to corporate governance practice, but not vice versa. Results from previous researches in Table VI-1such as Black (2001) and Black, et al, (2004) has the

Figure 5 Empirical Relationship between Ownership Structure, Corporate governance practices, and Firm Value



* Ownership structure is estimated cash-flow rights, wedge, and blockholders FBIB
**_ _ _ _ _ relationships are not tested, _ . _ . _ . _ empirical results does not support, and
_____ empirical results support these relationships.

Table 14. Comparing Results with Some References*

Researcher	Data	Hypothesis	Methodology	Results
Demsetz and Villalonga (2001)	223 companies from USA (1976-80	Causal relationship between ownership structure and firm value	2 stage least square	Ownership structure and firm value has no systematic relationship
Claessens et al. (2000)	2,980 companies from 9 countries in Asia (1996)	Influence cash flow rights to firm value	Ordinary least square	Cash flow rights has positive influence to firm value
Lins (2003)	2,533 companies from 18 emerging market (1995-1997)	Influence cash flow rights to firm value Influence block holder's ownership to corporate governance practice	2 stage least square	Cash flow rights has not have positive influence to firm value Block holder's ownership has positive effects to corporate governance practice
Black (2001)	21 companies from Russia (1999)	Influence corporate governance practice to firm value	2 stage least square	Corporate governance practice has positive effects on firm value
Black, Jang, and Kim (2004)	515 companies from South Korea (2001)	Influence firm value to corporate governance practice influence corporate governance practice to firm value	2 stage least square	Corporate governance practice has positive effects on firm value Firm value has positive effects on corporate governance practice
Wanattankantang (2001)	270 companies from Thailand (1996)	Foreign block holder's ownership effects to firm value	Ordinary least square	Foreign block holder's ownership has positive effects on firm value

*Hypotheses in this table only hypotheses that have direct relationship with this paper.

same results, namely firm value has positive influence to corporate governance. But results that corporate governance practice does not have positive influence to the firm value does not supported by the previous research like Black (2001), Black et al. (2004), and Durnev and Love (2005). See Figure 5.

Proof that corporate governance practice does not bring influence on firm value indicates; (1) Corporate governance practice has not brought influence on firm performance, perhaps because the implementation of corporate governance is a new thing in Indonesia, or (2) That result might happen if corporate governance practice revelation to the public is not proper so that it prevents investor in identifying firm with either good or bad corporate governance practice.

Moreover, the study finds that the relationship between corporate governance practice and firm value is weaker on large wedge firm. Therefore, this concludes that the effectiveness of corporate governance practice is influenced by the incentive to expropriate. Majority shareholders having control of the firm (high control rights but low cash flow rights), will ensure that corporate governance existence will not prevent them to expropriate on minority shareholders.

The study finds also that the relationship between corporate governance practice and firm value is weaker on large wedge firm. Therefore, this concludes that the effectiveness of corporate governance practice is influenced by the incentive to expropriate. Majority shareholders having control of the firm (high control rights but low cash flow rights), will ensure that corporate governance existence will not prevent them to expropriate on minority shareholders.

The empirical result states that the ownership structure brings positive influence to corporate governance practice and vice versa. This results actually same with the result from Claessens et al (2000, 2002) and La Porta et al. (2002), but different with the Lins (2002) does not find positive influence from cash flow rights to corporate governance. This empirical result could be assumed that the higher part of cash flow rights for the controlling shareholder, the more they try to implement good corporate governance practice because they have interest to protect their own assets.

Besides, good corporate governance practice brings positive influence to ownership structure measured by cash flow rights. This proof could be interpreted that on good corporate governance practice, ultimate shareholder will increase their ownership concentration measured by cash flow rights. Moreover, the ownership structure measured by cash flow rights does not bring significant influence toward firm value, and not vice versa.

The presence of FBIB blockholders ownership in firm ownership structure does not bring low firm value measured by Tobin's Q proxy. Moreover, the difference in influence between FBIB ownership percentage variable and foreign blockholders ownership percentage excluding FBIB (FBLOK) ownership percentage to firm value is none. Even if this result does not equal with the result from Wanattanakantang (2001), but it could be said normal, if there is FBIB definition limit. Or that result could be interpreted that FBLOK ownership percentage in Indonesia does not bring any advantages in increasing firm performance, like know-how technology or professional manager.

This research finds that FBIB ownership percentage variable brings negative influence to corporate governance practice. But the difference of FBIB ownership percentage influence on corporate governance practice between groups based on wedge is not proven. Next, the difference of blockholders ownership percentage influence, having stocks on behalf of foreigners but suspected as Indonesian (FBIB), and foreign blockholders ownership percentage outside FBIB (FBLOK) blockholders toward corporate governance practice is none. The result might happen

because most foreign blockholders do not have long term interest, but they become short-term-interest blockholders. Therefore, they don't pay attention on corporate governance practice, which generally influence on firm value in long term than short term.

This research has some limitations. In the selection process, the sample is selected by the firm having CGI data. Because CGI data is a survey data, there is an opportunity that the firm not collecting CGI data has low CGI. Therefore, data used in this research might be interrupted by firm with low CGI. FBIB are blockholders having stocks as foreigners but suspected as Indonesian (FBIB). FBIB FBIB definition variable has weakness. Though categorized as FBIB, there's an opportunity that part of them are foreign blockholders excluded in FBIB. Even though all financial companies and those becoming FBIB after 1997 are categorized as FBIB, there might be non-Indonesian and foreign blockholders doing investment in financial sector.

This research result states that corporate governance practice doesn't bring significant influence toward firm value. Therefore, it can be said that though corporate governance practice is formed well and lawful, there might have been ineffective in firm value measured by Tobin's Q proxy.

The higher wedge (control rights – cash flow rights) brings more negative influence toward the relationship between firm value measured by Tobin's Q proxy and corporate governance practice. On the other hand, ultimate shareholders ownership data structure for public firm at JSX isn't obliged to be published. Therefore, wedge inside ownership structure could make the investor lose, particularly the minority shareholders. Therefore, it is suggested to publish the firm ownership data structure and the ultimate shareholders.

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