INTRODUCTION

At present, modern companies have separated ownership structure and managerial control, with top managers conducting control over companies (Yi Lin, 2010, in Hajiha & Farhani, 2011). The conflict occurred between manager and share holders is a problem that draws enough attention, since in this case manager is a representative or agent receiving mandate from the share holders, and investors or share holders is known as principal, the one conferring mandate to agents. This principle is the principle of agency theory suggested by Jensen and Meckling (1976).

Agency approach is employed to explain managerial ownership. This approach considers manager ownership structure as a tool to reduce agency conflict among some claims towards company (Itturiaga & Sanz, 2000).

Hajiha and Farhani (2011) stated that company ownership structure can be used as a corporate governance mechanism or company management and reduce agency cost.

La Porta et al. (1998) stated, on the basis of their research, that Indonesian legal system is categorized into French Civil Law in which Indonesian legal system is weak in protecting investor’s right while ownership concentration is very high. Economic crisis started in 1997 affected changes in company ownership structure. Some companies experienced restructuring and merger. The structure discovered by Claessens et al. (2000, in Sugiarto, 2009) shows that pyramidal structure is often used by controller share holders in Indonesia, implying that expropriation, abolishment of personal rights for public interest, accompanied with compensation towards minor share holders could strongly happen (Sugiarto, 2009).
Jensen and Meckling (1976) stated that ownership structure is a pattern of stakes and forms of ownership found in Indonesian companies. The percentage of share ownership possessed by internal shareholders and external share holders. Managerial ownership is share ownership possessed by managers, directors, and stockholders as a result of their managerial responsibilities.

At present days, a company aiming at only maximizing profit is no longer relevant (Scott, 1999), since company responsibility is not only to its owner, but also to all of its stakeholders; thus demanding the company to consider all stakeholders and its effect on the stakeholders. On this basis, the appropriate direction of company today is to maximize the firm value. One of measuring methods relevant in measuring performance based on the concept of Economic Value Added (EVA), since EVA is the measurement of economic value added generated by a company as an effect of the management activity or strategy (Young & O’Byrne, 2000). Thus, by employing EVA calculation in measuring company performance, the company increases value added strategy and decreases non-value added strategy. EVA is accepted as an important instrument for measuring performance and management throughout the globe, in particular in advance countries that adopt this type of management as a company strategy (Hajjia & Farhani, 2011).

EVA method using capital expenses as its main components, or the expense of company managers, so that EVA also considers financial aspect appropriate to the interest of owners or investors. EVA is also an indicator of creating value from an investment. Positive EVA indicates company’s success in creating value for company owner (Pradhan, 2004). EVA does not only observe the rate of return, but also indirectly considers risk that is taken by the company, since EVA detracts profit with the capital expenses invested. Thus, EVA generated by the corporation reflects the actual profit of corporation (Winarto, 2004).

Value added as measurement in EVA method is created when company makes profit over capital expenses, since mathematically EVA concept makes the company focuses more on the effort of generating firm value and assesses company financial performance fairly by utilizing weighted measurement from existing capital structure (Widayanto, 1994). The year 2007-2011 was selected as the research period since during this period according to the data from Bank Indonesia (2011), in the last five years prior to 2011, the world economic development was signified by the economic growth higher than the historical average (over 4%), and the global Foreign Direct Investment (FDI) flow that kept increasing, and soaring the price of global petroleum and non-petroleum commodity, so that global inflation pressure increased. This led to an economic crisis, causing the Gross Domestic Product (GDP) rate to be fluctuating (Bank Indonesia, 2012) as can be seen in Figure 1. This research will analyze whether fluctuation in Indonesian economy as the result of this crisis affected the economic value added that was generated in the years of research period.

Based on this background, some research questions were drawn: what is the effect of each ownership structure such as partial managerial ownership, public ownership, institutional ownership, governmental ownership, governmental ownership structures on economic value added; and what is the effect of simultaneous managerial ownership, public ownership, institutional ownership, and governmental ownership structures on economic value added?

The aim of this research is to analyze the effect of partial managerial ownership, public ownership, institutional ownership, governmental ownership on economic value added; and analyze the effect of simultaneous managerial ownership, public ownership, institutional ownership, governmental ownership on economic value added of companies during the year of 2007-2011.

Ownership is a power a company is supposed to take control over something exclusively owned and utilize it for personal intention, while ownership structure according to Jensen and Meckling (1976) is various patterns and forms of ownership found in a company or the percentage of share owned by the internal share holders and external share holders. Demsetz and Lehn (1985, in Sugarto, 2009) said that share ownership structure can be divided into dispersed ownership and concentrated ownership.

Ownership structure is divided into two important variables in capital structure are not only decided by the sum of debt and equity, but also by the percentage of share ownership by inside or outside shareholders (Xu et al., 2003). Managerial ownership can be defined as a share ownership by board of directors, manager, employee, and other company internal apparatus. Shleifer and Vishny (1986, in Sugarto, 2009) stated that the capital structure is a success if economic value from economic point of view has the incentive of monitoring.

Indonesian stock market is run by limited number of investors. Data from Bapepam-LK show that a number of domestic investors in Indonesia Stock Exchange is only 0.2 percent (about 460 thousands) of Indonesian population that reaches 230 million citizens (Bappepam-LK, 2009). Jensen (1979) said that the public has an important role in creating the function of good managerial system since they act independently in assessing management. The institution in company institutional ownership in Indonesia is a public company ownership, not by person (Wulandari, 2005).

Institutional investor usually holds significant investment in the company and need to protect their investment. Major share holders have both strong incentive to monitor manager and power to discipline manager (Chang, 2003 in Siagian, 2011).

Government as a regulator has the responsibility to protect its people and make sure that companies apply a company management to protect their stakeholders, in this case the company investors. Mak and Li (2001) stated that the State Owned Company (BUMN) may have weaker independence compared to other company since their objectives are also correlated to the country’s welfare and not merely company’s.

EVA was first popularized by Stem Steward Management Service, a consultant firm from the United State. The Economic Value Added: The Quest for Value by G. Bennet Stewart mentioned that “A quest for value directs scarce resources to their most promising uses and most productive users. The more effectively resources are deployed and managed, the more robust economic growth and the rate of improvement in our standard of living will be” (Stewart, 1991). EVA is a measurement or calculation of the rest of income deduced by capital expenses from the operative profit generated in business (Stewart, 1991). Capital expenses is real cost or common share expenses, that can be gained as the sample characteristic since there is a method of dividend discount method that estimates the value of equity that require the data of dividend issued by the company annually. The data gathered among others are the percentage of managerial ownership, public ownership, institutional ownership, and governmental ownership inside the company. The calculation of economic value added also required the Cost of Equity (CoE), Cost of Debt (CoD), Weighted Average Cost of Capital (WACC), Net Operating Profit After Tax (NOPAT), and company’s Invested Capital. This data used in this research is secondary data in the form of panel data, i.e. collection of cross section and time series data, since this research observed 61 companies during the period of 2007-2011. The dependant variable in this research is the economic value added score of the companies which can be measured by:

\[ EV\text{A} = NOPAT \times WACC \times (1 \times (T \times WDEBT + Wstocks) \times \frac{CDEBT}{E}) \]


Where:

- \( NOPAT \) is the Operating Profit – Taxes
- \( WACC \) is the Weighted Average Cost of Capital
- \( T \) is the tax rate
- \( WDEBT \) is the percentage of debt in capital structure
- \( Wstocks \) is the percentage of shares in capital structure
- \( CDEBT \) is the Capital Expenses
- \( E \) is the Equity

Invested Capital is the capital invested by the company or the sum of funds available for company to finance itself that can be calculated by this formula:

\[ Invested\text{ Capital} = Total\text{ Assets} + Total\text{ Liabilities} \times (1 - T) + WDEBT \times E \]


WACC or Weighted Average Cost of Capital is the total grade of capital expenses calculated by weighted average from capital expenses individually according to the capital sources and structures in the balance sheet (Weston & Copeland, 1992) that can be measured by using the formula:

\[ \text{WACC} = WDEBT \times \text{KDEBT} + (1 - WDEBT) \times \text{KDEBT} \]


In calculating WACC, some data were required such as the proportion of capital in capital structure (W), and Cost of Debt (K) data or debt expenses after tax and Cost of Equity (K) or common-share expenses. These data can be gained from the calculation using these formulas:

\[ K_COE = \frac{E}{P + g} \]

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RESULT AND DISCUSSION

Based on the determination of sample gathering that had been conducted, this research employed 61 companies as samples. The initial sum of research observation data was 305 (61 x 5 years). Then, after the data processing, the research observation data was reduced to 182 of unbalanced data panel due to the omission of some outliers from the research data. In detail, the annual data are 21 observation data in 2007, 38 observation data in 2008, 35 observation data in 2009, 39 observation data in 2010, and 36 observation data in 2011. Prior to the building hypothesis above, then analytic calculations using the formulas above, Hypothesis 1 showed that there was no significant effect from managerial ownership on Economic Value Added.

Hypothesis 1

H0 = There is no significant effect from company public ownership on Economic Value Added

H1 = There is significant effect from company public ownership on Economic Value Added

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H1 = There is significant effect from company public ownership on Economic Value Added

H0 = There is no significant effect from company government ownership on Economic Value Added

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Therefore, Hypothesis 2 shows that there is an indication of the urgency for adding some new variables to the research in order to find the result of data processing as can be viewed in Table 4.1 below.

Table 4.1 shows that the probability score of t-stat score from public ownership was at 2.327733 with the probability score at 0.0211 which meant public ownership independent variable had significant effect at 5% level and was correlated positively to economic value added. The samples used in this research were companies that had independent variable in this research, showed by the smaller score of Adjusted R² compared to R² score. The t-statistic test was used to show how much effect an individual or partial independent variable had in defining the effect on dependent variables. In t test, there was a significance level at 1% level, significance at 5% level, and significance at 10% level depending on the probability score on t-stat.

Table 1 above shows that the probability score of managerial ownership variable was at 0.2922 with positive t-stat at 1.056547. This result meant that managerial ownership did not have significant effect on the company’s economic value added despite the existence of positive coefficient score and t-stat, which meant there was positive relation to economic value added. This result is in line with the research conducted by Hajjha and Farhani (2011), which was the main reference of this research, that managerial ownership had no effect on economic value added of manufacturing companies in Iran. In Indonesia, in particular in companies that were made samples of this research, not many possessed managerial ownership or, if any, they only had small proportion from the entire company ownership. This was in relation with the discovery of La Porta et al. (1998) stating that, based on their research, Indonesian legal system was classified weak in protecting investor’s rights, while ownership concentration was high. The protection of minor investor’s rights would then refer to expropriate or process of utilizing one’s control right to maximize his personal welfare (Atmaja, 2011) by those minor investors (managerial ownership). This was parallel to the discovery of Lemons and Lins (2003, in Hananto, 2007) that only ownership by management or managerial ownership at sufficient level can have effect on increasing company performance. The small proportion of managerial ownership on company ownership structure was directly resulted in small capital expenses coming from the internal investment of the company, directly resulting in the insignificant effect of managerial ownership or managerial investor on economic value added which used capital expenses as one of its main components.

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Figure 2. Average fluctuation of Economic Value Added in 2007-2011
it was revealed in the research that companies with institutional ownership in company ownership structure was good companies to invest in so as to increase company had more value added and better at controlling managers. They also said that investors in institutional ownership had more experience in collecting analyzing any information related to performance and value of company. That discovery and the result of this research were supported by the result of Ming and Goe’s (2008) research that institutional ownership, so that structure of financiers affected the effect on company management. The funds invested by institutional investor usually come in quite great sum so that it has a significant influence because the major financiers in company financing structure and further affect the value of company economic value added, so that institutional ownership can have effect on the activity referring to company capital expenses. As mentioned by Roundhale (1998, in Chen et al., 2008), the institutional ownership in company has high performance of potential to increase company management effectiveness.

Based on Table 1, the government ownership variable shows positive t-stat score at 0.504615 and probability score at 0.016145. From these scores, it can be concluded that government ownership did not have significant effect, but correlated positively to economic value added. It is mentioned in the research of Hasnawati (2009) whose research result was similar to this research that the ownership structure played more effective role on private companies than government companies or BUMN. This is parallel to the fact that more dominant government policy on the company would maximize political and social intentions more than company profit. This is parallel to the result that institutional share holders had strong effect referred to company economic value added, whereas company can focus more in increasing the entire company financial value. Economic value added has an effect on the determination or implementation of company financial decision that can become the major management system function whereas company can focus in increasing the entire company financial value. Economic value added has an effect on the determination or implementation of company financial decision which can be explained far more. This research only uses four types of ownership (managerial, public, institutional, and governmental). There are other types of ownership on the company ownership structures that can be analyzed more thoroughly such as foreign ownership (Siagian, 2011).

CONCLUSION

The results of this research show that: managerial ownership and public ownership, have no significant effect on economic value added; ownership structure in this research that institutional share holders had strong effect referred to company economic value added; public ownership has positive significant effect on economic value added; institutional ownership also has positive significant effect on economic value added. Government ownership has no significant effect on economic value added; ownership structure in this research including managerial ownership, public ownership, institutional ownership, and governmental ownership simultaneously has significant effect on economic value added. This research only employs companies routinely issued their financial reports. The result of this research will be updated if the years of research in the years 2011 regularly as data, since the calculation of cost of equity uses dividend discount model, so that research samples will be used the years 2001 to 2010. Further research, should more samples be needed, other calculation model can be employed in calculating the cost of equity (Young & O’Brien, 2000).

Based on the result similar to the research of Hajji and Farhani (2011), there are other types of ownership on the company ownership structures that can be analyzed more thoroughly such as foreign ownership.


