THE EFFECT OF SHARE OWNERSHIP STRUCTURE ON THE RISKS OF EXPROPRIATION IN COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

Muh. Abdi Imam
Accounting Department, Faculty of Economics and Business, Universitas Hasanuddin
feunhas@indosat.net.id

Gagaring Pagalung
Accounting Department, Faculty of Economics and Business, Universitas Hasanuddin
gpagalung@yahoo.com

Grace T. Pontoh
Accounting Department, Faculty of Economics and Business, Universitas Hasanuddin
gracetpontoh@gmail.com

Abstract

Researches on the risk of expropriation that have been carried out by researchers have no consistency in the results because of differences in the characteristics of companies in each country. This study aims to empirically examine the effect of share ownership structure on transactions that allow the risk of expropriation of companies listed on the Indonesia Stock Exchange (IDX) over the period of 2010-2014. This research was done by downloading a summary of the financial statements of non-financial companies. Selected samples of 61 non-financial companies listed on the Stock Exchange 2010-2014. Data were analyzed by quantitative approach, i.e. by multiple linear regression using SPSS 21. Simultaneous test results indicated that the structure of share ownership affects the risk of expropriation. Partially, institutional ownership and public ownership had a negative effect on the risk of expropriation and individual ownership had a positive effect on the risk of expropriation. The risk of expropriation carried out by controlling shareholders towards non-controlling shareholders is smaller when ownership of shares by institutions and the public can act as a party that monitors management's performance as a company manager.

***Keywords**: institutional ownership, public ownership, individual ownership, risk of expropriation.*

Abstak

Penelitian tentang risiko pengambilalihan yang telah dilakukan oleh peneliti tidak memiliki konsistensi dalam hasil karena perbedaan karakteristik perusahaan di masing-masing negara. Penelitian ini bertujuan untuk menguji secara empiris pengaruh struktur kepemilikan saham pada transaksi yang memungkinkan risiko pengambilalihan perusahaan yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2010-2014. Penelitian ini dilakukan dengan mengunduh ringkasan laporan keuangan perusahaan non-keuangan. Sampel yang dipilih dari 61 perusahaan non-keuangan yang terdaftar di Bursa Efek 2010-2014. Data dianalisis dengan pendekatan kuantitatif, yaitu dengan regresi linier berganda menggunakan SPSS 21. Hasil uji simultan menunjukkan bahwa struktur kepemilikan saham mempengaruhi risiko pengambilalihan. Secara parsial, kepemilikan institusional dan kepemilikan publik memiliki efek negatif pada risiko pengambil-alihan dan kepemilikan individu memiliki efek positif pada risiko pengambilalihan. Risiko pengambilalihan yang dilakukan oleh pemegang saham

pengendali terhadap pemegang saham non-pengendali lebih kecil ketika kepemilikan saham oleh institusi dan publik dapat bertindak sebagai pihak yang memantau kinerja manajemen sebagai manajer perusahaan.

Kata Kunci: *kepemilikan institusi, kepemilikan publik, kepemilikan individu, risiko pengambilanalihan.*
JEL: G32

1. Research Background

Expropriation is an action carried out by the controlling shareholder (majority) against non-controlling shareholders (minorities). Sugeng (2005) proposed that this controlling shareholder is also referred to as the majority shareholder of the company's ownership. La Porta et al. (1999), Faccio et al. (2000), and Fosberg (2004) said that the higher the concentration of ownership on certain parties will bring out the majority shareholders who have more control rights over the company.

Jensen & Meckling (1976), Claessens et al. (2000), Chen & Mande (2003), and Sari (2010) stated the ownership structure can influence the behavior of the controlling company. The issue of expropriation is a problem that arises as a result of the parties involved in the company having different interests. This difference is due to the ownership structure of the company. The shareholding structure reflects the distribution of power and influence among shareholders for the company's operations.

Research conducted by Cheung et al. (2006), Chen (2007), and Nielsen (2007) found that institutional ownership had a negative effect on the risk of expropriation. The research of Lemmon & Lins (2008) pinpointed that institutional ownership had no significant effect on the risk of expropriation.

Research conducted by Sugeng (2005) concluded that public ownership had a negative effect on the risk of expropriation. The research conducted by Sari (2010) found that individual ownership had a positive effect on the risk of expropriation.

Research related to ownership structure has been carried out in Indonesia such as Achmad (2008) and Hadiprajitno (2013) who stated that the structure of share ownership, leverage, internal factors, and external factors had a positive effect on firm value. However, research on the effect of ownership concentration structure that is associated with the risk of expropriation and the risk of agency theory type 2, has not been done much.

Based on several studies on the risks of expropriation that have been carried out, there was no consistency in the results of these studies. Therefore, this research was conducted with the aim to determine the effect of ownership structure on the risk of expropriation in non-financial companies listed on the IDX over the period of 2010-2014

2. Research Method

This study focused on non-financial companies listed on the Indonesia Stock Exchange. The study was designed to test the hypothesis which explains the effect of the independent variables on the dependent variables so that this type of research is a hypothesis testing. Research hypotheses were developed based on theories relating to research topics and then tested based on appropriate analytical techniques. This research was causal which aims to measure the strong relationship and influence between variables in the study. Before measuring strong relationships and influences between independent variables and dependent variables, each variable was defined and measured based on its proxy.

The type of data used in this study was object data, while the data source used was secondary data obtained by researchers indirectly from the IDX which includes Indonesia Capital Market Directory (ICMD) and financial reports published by the IDX on the website www.idx.co.id. The data collection method used the documentation method, which is a method based on secondary data, which was done by collecting company financial statements that have been published by the IDX.

To determine the risk of expropriation in non-financial companies listed on the IDX over the period 2010-2014, multiple linear regression was used with the analysis model as follows:

$$Expro_{(S,P,A,L)} = \alpha_0 + \beta_1 \text{ KIns} + \beta_2 \text{ KPub} + \beta_3 \text{ KKel} + \varepsilon$$

Description:

Y : Expropriation (*Expro*-$_{S,P,A,L}$)

α : constant

$b_1 \ldots b_3$: direction of regression coefficient

x_1 : Institutional Ownership (KIns)

x_2 : Public Ownership (KPub)

x_3 : Individual / Family Ownership (KKel)

e : Error

3. Result and Discussion

The estimation results of the study were conducted to test the hypothesis, institutional ownership has a negative effect on the risk of expropriation in non-financial companies listed on the Indonesia Stock Exchange (H1), public ownership has a negative effect on the risk of expropriation in non-financial companies listed on the Indonesia Stock Exchange (H2), individual ownership has a positive effect on the risk of expropriation in non-financial companies listed on the Indonesia Stock Exchange (H3).

Based on the results of SPSS data processing (Appendix Table 1), it can be seen that the coefficient of determination shown by *Adj.* R^2 of the regression equation produces a value of 0.561. This value signifies that 56.1% of the independent variables consisting of institutional ownership, public ownership, and individual ownership are able to explain the expropriation risk variable. The remaining 43.9% is explained by other variables outside the model. This means that there are still other very influential factors on the risk of expropriation variable. In the simultaneous significance test shown by the F-statistic, the value generated by the regression equation was 26.603 with significance below $\alpha = 0.05$. It can be explained that institutional ownership, public ownership, and individual ownership simultaneously influence the expropriation variable. The constant value of 1.891 shows that if there are no variables of institutional ownership, public ownership, and individual ownership, the risk of expropriation will decrease to 1.891.

The institutional ownership variable regression coefficient of -0.018 states that if institutional ownership increases by 1%, the risk of expropriation will decrease by -0.018. At the level of significance, institutional ownership has a significance of 0.017 which is below $\alpha = 0.05$. The public ownership variable regression coefficient of -0.016 states that if public ownership increases by 1%, the risk of expropriation will decrease by -0.016. At the level of significance, institutional ownership has a significance of 0.020 which is below $\alpha = 0.05$. While individual ownership variable regression coefficient of 0.036 states that if individual ownership increases by 1%, the risk of expropriation will increase by 0.036. At the level of significance, individual ownership has a significance of 0.000 which is below $\alpha = 0.05$.

This study found that ownership structure influences the risk of expropriation. This indicates that the risk of expropriation committed by controlling shareholders against non-controlling shareholders is determined by the shareholding structure.

The first hypothesis in this study is that there is a negative influence between institutional ownership on the risk of expropriation in non-financial companies listed on the Indonesia Stock Exchange. Hypothesis testing results indicate that the regression coefficient (beta) is equal to -0.018 which shows a negative direction with a t_{count} of -2.461 with a significance value of 0.017 smaller than the specified significance value (0.017 <0.05). Therefore, institutional ownership had a negative and significant influence on the risk of expropriation. So it can be concluded that the first hypothesis is accepted.

In this variable, a negative sign in the regression coefficient indicates that if institutional ownership increases, the risk of expropriation will decrease. This result explains that the high proportion of institutional ownership can have an impact on reducing the risk of expropriation due to institutional monitoring. Strict monitoring of company activities can reduce the level of risk and can increase financing (capital) from investors, which triggers the achievement of increased corporate profits.

Profit is needed by the company in order to maintain its survival. This profit will be earned if the company is able to market or sell goods produced or goods offered, meaning that the company has a competitive advantage. To achieve this goal, one effective way is by satisfying consumers and shareholders at a certain level of profit without forgetting their social responsibilities, according to the marketing concept. With this condition, the company will be able to provide useful financial statement information as a tool for decision making and will minimize the possibility of expropriation in the company.

The results of this study are consistent with previous studies conducted by Chen (2007) who examined the relationship between institutional ownership and the performance of New Zealand non-financial companies. The results of his research showed that institutional ownership negatively affects the risk of expropriation. Chen et al. and Nielsen (2007) conducted a study of whether the ownership of financial institutions can reduce the risk of expropriation between shareholders and managers. The results of the study indicated that the majority share ownership by financial institutions can reduce the risk of expropriation because financial institutions can monitor management performance as a company manager. The results of this study are contrary to previous research. Shleifer and Vishny (1997) conducted research on the ownership of financial institutions against the risk of expropriation of minority shareholders. The results of this research showed that institutional ownership had no significant effect on the risk of expropriation.

The second hypothesis in this study is that there is a negative influence between public ownership on the risk of expropriation in non-financial companies listed on the Indonesia Stock Exchange. Hypothesis test results showed that the regression coefficient (beta) is equal to -0.016 which indicates a negative direction with a t_{count} of -2.401 with a significance value of 0.020 smaller than the specified significance value (0.020 <0.05). Therefore, institutional ownership had a negative and significant influence on the risk of expropriation. So, it can be concluded that the second hypothesis is accepted.

The results of this study support the findings of Faccio et al. (2000) that examined the influence of public ownership on expropriation transactions of companies in Western Europe. The results of his research showed that public ownership had a negative effect on transactions that can lead to the expropriation of minority shareholders. Sugeng (2005) examined the role of the public in reducing the risk level of expropriation carried out by the majority shareholder.

Sugeng's (2005) study showed that public ownership can reduce the risk level of expropriation because public ownership can act as monitoring. This condition illustrates that public ownership that arises due to the high sale of shares in the general public can increase monitoring manager's performance in managing the company during the research period. According to agency theory, public ownership has a negative effect on the risk of expropriation which is in line with this study and public ownership has a negative effect on the risk of expropriation. A high level of monitoring from the public investor increases the opportunity for expropriation transactions. This happens because the proportion of public share ownership is spreading which is not concentrated in certain very high communities in Indonesia.

The third hypothesis in this study is that there is a positive influence between individual ownership on the risk of expropriation in non-financial companies listed on the Indonesia Stock Exchange. Hypothesis test results indicated that the regression coefficient (beta) is equal to 0.036 which indicates a negative direction with a tcount of 5.540 with a significance value of 0.000 smaller than the specified significance value (0,000 <0.05). Therefore, institutional ownership had a positive and significant influence on the risk of expropriation.

La Porta et al. (1999) examined individual shareholders against companies, especially in countries with poor shareholder protection. The results of his research showed that individual ownership had a positive effect on the risk of expropriation. Claessens et al. (2000) found the risk of expropriation of minority shareholders. The results of the research on individual shares showed that the structure of individual ownership had a positive effect on the risk of expropriation. Sari (2010) studied individual ownership that affects transactions with parties that have special relationships. The results of this research showed that individual ownership had a positive effect on transactions that allow the risk of expropriation.

This is influenced by the existence of individual ownership which is concentrated in one particular individual that triggers the right of centralized control to the individual. This condition has a great chance of expropriation on other shareholders carried out by individual shareholders. The higher the percentage of individual ownership, the higher the chance of expropriation transactions. In individual ownership, individual shareholders who are the owners of the company have the right to control the company will make decisions to achieve the company's goals, i.e. profit increases during the period

4. Conclusion

This research was conducted with the aim to determine the effect of ownership structure on the risk of expropriation in non-financial companies listed on the IDX over the period of 2010-2014. The results of this study concluded that institutional ownership had a negative influence on the risk of expropriation which indicates that hypothesis 1 is accepted. Public ownership had a negative influence on the risk of expropriation which indicates that hypothesis 2 is accepted. Individual ownership had a positive effect on the risk of expropriation which indicates that hypothesis 3 is accepted.

Acknowledgement

The suggestion in this study that is based on the limitations of the study is that the next researchers should not only use immediate ownership that can be directly traced in the financial statements but add ultimate ownership that needs to be tracked in detail in published financial reports so that the validity of ownership proportion is strong. Further research also needs to determine the percentage of minimum dominance of institutional ownership structures, public ownership, and individual ownership that can reduce or increase the risk of expropriation so that the hypothesis used is stronger.

References

Achmad T. 2008. Concentrated Family Ownership Structures Weakening Corporate Governance, The Case of Indonesia Companies. *Jurnal Manajemen Akuntansi dan Sistem* Informasi. 8(2): 118-134.

Chen CR, Mande V. 2003. Managerial Ownership and Firm Valuation: Evidence from Japanese firms. *Pacific-Basin Finance Journal*. 1(2): 267-283.

Chen J. 2007. Does Institutional Ownership Create Values? The New Zealand Case. Department of Economics and Finance Massey University, New Zealand. *Journal of Finance and Accounting*, 47(4).

Cheung Y, Rau PR, Stouraitis A. 2006. Tunneling, Propping and Expropriation: Evidence from Connected Party Transaction In Hongkong. *Journal of Financial Economics*. 82(2): 343-386.

Claessens S, Djankov S, Fan JPH, Lang LHP. 2000. Expropriation of Minority Shareholders: Evidence from East Asia. *The World Bank Policy Research Working Paper*.

Faccio M, Lang LHP, Young L. 2000. Dividends and Expropriation. *American Economic Rev.*

Fosberg RH. 2004. Agency Problems and Debt Financing: Leadership Structure Effects. Corporate Governance. *The International Journal of Business in Society*. 4(1): 31-38.

Hadiprajitno PB. 2013. Stuktur Kepemilikan, Mekanisme Tata Kelola Perusahaan, dan Biaya Keagenan di Indonesia (Studi Empirik pada Perusahaan di Bursa Efek Indonesia) *Jurnal Akuntansi dan Auditing*. 9(2).

Jensen MC, Meckling WH. 1976. Theory of The Firm: Managerial Behavior, Agency Costs. and Ownership Structure. *Journal of Financial Economics*. 3(4): 305-360.

La Porta R., Silanes FLd, Shleifer A. 1999. Corporate Ownership Around the World. *Journal of Finance*. 54:471-517.

Nielsen KM. 2007. Institutional Investors and Private Equity. *Review of Finance*. 12(1): 185-219.

Sari RC. 2010. Tunneling dan Model Prediksi: Bukti Empiris pada Transaksi Pihak Berelasi. [*Disertasi]*. Yogyakarta: Universitas Gadjah Mada.

Shleifer A, Vishny RW. 1997. A Survey of Corporate Governance. *Journal of Finance*. 52 (2):737-783.

Sugeng B. 2005. *Pengujian Monitoring Rationale of Dividend dari Easterbrook di Lingkungan Perusahaan yang Listing di BEI. Jurnal Ekonomi Bisnis*. 1.