

Exploring the Relationship between Ownership Structure and Financial Performance: An Empirical Analysis of Indonesian Companies

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ABSTRACT

Ownership structure is one of the factors that influence management's decision-making, which in turn impacts the company's financial performance. This study aims to obtain empirical evidence regarding the effect of various types of ownership—including institutional, government, family, managerial, and foreign ownership—on financial performance in non-financial sector companies. The population in this study consists of all business entities listed on the IDX from 2018 to 2021. The sample size used in this study is 1,536 company-years, derived from 384 companies out of a total population of 2,781 on the IDX over four years. A purposive sampling technique was employed for selecting the sample. Researchers utilized a fixed effect model on the panel data structure for hypothesis testing analysis. The results showed that the presence of government, family, and foreign ownership improves the company's financial performance. Therefore, investors can consider ownership structure when making investment decisions.

Keywords: Corporate governance; firm performance; ownership structure.

Menggali Hubungan Struktur Kepemilikan dan Kinerja Keuangan: Analisis Empiris Perusahaan Indonesia

ABSTRAK

Struktur kepemilikan merupakan salah satu faktor yang mempengaruhi pengambilan keputusan manajemen yang pada akhirnya berdampak pada kinerja keuangan perusahaan. Penelitian ini bertujuan untuk memperoleh bukti empiris mengenai pengaruh berbagai jenis kepemilikan—termasuk kepemilikan institusional, pemerintah, keluarga, manajerial, dan asing—terhadap kinerja keuangan pada perusahaan sektor non keuangan. Populasi dalam penelitian ini terdiri dari seluruh badan usaha yang terdaftar di BEI pada tahun 2018 hingga 2021. Besar sampel yang digunakan dalam penelitian ini adalah 1.536 perusahaan-tahun yang berasal dari 384 perusahaan dari total populasi 2.781 di BEI selama empat tahun. Teknik purposive sampling digunakan untuk memilih sampel. Peneliti menggunakan model fixed effect pada struktur data panel untuk analisis pengujian hipotesis. Hasil penelitian menunjukkan bahwa kehadiran kepemilikan pemerintah, keluarga, dan asing meningkatkan kinerja keuangan perusahaan. Oleh karena itu, investor dapat mempertimbangkan struktur kepemilikan ketika mengambil keputusan investasi.

Kata Kunci: Tata kelola perusahaan; kinerja perusahaan; struktur kepemilikan

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INTRODUCTION

Many factors can be considered by investors before deciding where to allocate their funds, one of which is the company's financial performance. Setiawan & Mettan (2023) states that good financial performance signals to investors the potential for high returns. According to PSAK No. 1 of 2022, financial statements are a structured presentation consisting of the financial position and performance of a business entity. These financial statements reflect the results of management's accountability for the resources entrusted to them (Ikatan Akuntan Indonesia, 2022).

Several factors can affect the financial performance of a company, with corporate governance being a significant one (Mardnly et al., 2018). Decisions regarding company activities are made by agents or management. Ueng (2016) found that companies with better governance policies tend to have better financial performance. Therefore, it is crucial for companies to implement governance practices that protect and align the interests of principals, such as the composition of the ownership structure.

The ownership structure determines the dynamics of decision-making, mapping agency problems, and the implications of these in various contexts. It can influence management decision-making incentives in terms of alignment with shareholder interests and financial performance. Additionally, ownership structure affects management transparency and accountability concerning agency problems and financial performance trends. However, these effects may vary across different countries.

Boshnak (2023) found that institutional ownership, government ownership, managerial ownership, and foreign ownership improve the financial performance of companies listed on the Saudi Stock Exchange. Conversely, family ownership was found to reduce the financial performance of these companies. In contrast, Aluchna & Kaminski (2017) discovered that institutional ownership, government ownership, and managerial ownership have no significant effect on the financial performance of companies listed on the Warsaw Stock Exchange.

Indonesia has unique ownership structure characteristics. According to Price Waterhouse Cooper (2014) family businesses dominate 95% of all businesses in Indonesia. Radiawati (2015) stated that family-owned companies generally have performance aspects that are supported and regulated by the family, which can positively impact company operations. Given the specific context of ownership structure in Indonesia and the differing research results in various countries, this study aims to examine the impact of ownership structure on financial performance in Indonesia.

This study seeks to obtain empirical evidence regarding the effect of various types of ownership—namely institutional ownership, government ownership, family ownership, managerial ownership, and foreign ownership—on the financial performance of non-financial sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2021 period. This study is expected to contribute to the development of knowledge regarding agency theory and provide additional empirical evidence on the effect of ownership type on financial

performance. Additionally, this research aims to aid investors in making informed decisions.

An agency relationship is defined as a contract where one or more people (principals) engage another person (agent) to perform a service according to the principal's wishes, which involves delegating decision-making authority to the agent (Jensen & Meckling, 1976). Problems arise when both parties in the agency relationship seek to maximize their own utility, leading to a situation where agents may not always act in the best interest of the principals. Agency theory addresses the resolution of problems that arise in the relationship between principals and agents. The first problem occurs when principals and agents have different motivations and goals (Kurvinen et al., 2016). The second problem arises due to information asymmetry, where agents have more information than principals (Ali, 2020). These differences in interests and information asymmetry can harm the principal and increase agency costs.

The actions taken by the company are motivated by the needs of the principals (shareholders). Every action and decision by management should advance the interests of the company and its shareholders (Freeman dan Reed, 1983). The presence of shareholders is one of the factors that can affect a company's financial performance. According to PSAK No. 1 of 2022, financial statements show the results of management's accountability for the use of resources entrusted to them (Ikatan Akuntan Indonesia, 2022). In publicly traded companies, shares are owned by various parties, including institutional investors, the government, family members, managers, and foreign investors. This diverse ownership structure can influence the company's financial performance, highlighting the importance of aligning the interests of all stakeholders to achieve optimal outcomes.

Institutional ownership refers to shares owned by institutional investors such as mutual funds, insurance companies, securities firms, pension funds, and other financial institutions (Pirzada et al., 2015). Boshnak (2023) found that institutional ownership can improve a company's financial performance. Mishra dan Kapil (2017) attributed this improvement to the high potential for monitoring by institutional parties. Additionally, Altania et al. (2023) indicated that institutional ownership can enhance supervision of company management, provide positive signals to the market, and help companies obtain greater resources, thereby improving financial performance.

H₁: Institutional ownership has a positive effect on the company's financial performance.

Government ownership represents shares owned by the government (Le, 2020). Boshnak (2023) found that government ownership can enhance a company's financial performance. The profitability of state-owned enterprises (SOEs) is significantly influenced by government ownership (Ong'onge et al., 2023). Political connections and government assistance can be beneficial, increasing a company's financial success. Eforis & Uang (2015) also found that government ownership is positively related to firm performance, suggesting that government support in developing countries is advantageous for firm growth. SOEs have benefits such as operating in sectors crucial to society and facing fewer restrictions in seeking funding.

H₂: Government ownership has a positive effect on company financial performance.

Family ownership refers to shares owned by family members who occupy top-level management positions in a family company (Diéguez-Soto et al., 2020). Research has shown that family ownership is positively related to a company's financial performance. This alignment of interests between principals and agents ensures that managers are more focused on managing the company due to direct supervision by family members, thereby increasing profitability (Najahiyah et al., 2022). Additionally, the resilient culture of family-owned companies, characterized by high perseverance in facing challenges, contributes to their long-term survival and the ability to pass the business on to subsequent generations. Effective asset management and cost efficiency further enhance the company's financial performance (Iryanto et al., 2022).

H₃ : Family ownership has a positive effect on the company's financial performance.

Managerial ownership consists of shares owned by corporate insiders, including the board of directors and the board of commissioners (Soliman & Elsalam, 2012). Farooque et al. (2020) found that managerial ownership negatively affects company performance. High levels of managerial ownership can lead to managers operating in their own best interests rather than those of the shareholders, thus reducing financial performance (Alkurdi et al., 2021). This self-serving behavior may result in the misuse of company resources to maximize personal satisfaction, ultimately harming overall company performance (Sheikh et al., 2013).

H₄ : Managerial ownership has a negative effect on the company's financial performance.

Foreign ownership involves shares owned by foreign investors (Tran, 2022). Boshnak (2023) found that foreign ownership can improve a company's financial performance. The presence of foreign ownership can curb or limit the opportunistic behavior of managers, thereby enhancing company performance (Yesi & Putra, 2021). Foreign investors often play a crucial role in better supervising managers, and they typically bring advanced knowledge of accounting policies, technology, and investment experience (Mardiana et al., 2023).

H₅ : Foreign ownership has a positive effect on the company's financial performance.

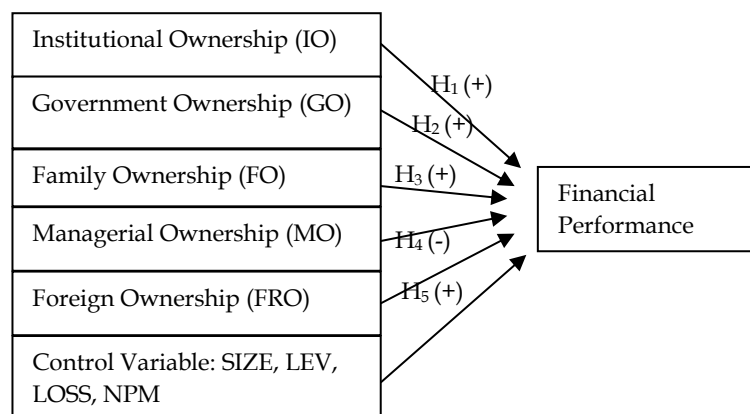


Figure 1. Research Model

Source: Research data, 2024

Figure 1 illustrates the effect of the independent variables on the dependent variable in this study. The dependent variable is financial performance. The independent variables include the ownership structure of the company, which is categorized into institutional ownership, government ownership, family ownership, managerial ownership, and foreign ownership. Additionally, this study employs several control variables: company size, leverage, losses, and the net profit margin ratio. These control variables are incorporated to isolate the effect of ownership structure on financial performance, ensuring that the results accurately reflect the influence of the independent variables.

RESEARCH METHOD

Non-financial sector business entities listed on the Indonesia Stock Exchange (IDX) and publishing financial reports during the 2018-2021 period are the units of analysis in this study. The authors selected the non-financial sector because, apart from being smaller in number, financial sector business entities have distinct characteristics and financial reporting regulations. This choice aims to achieve a broader scope of research data.

The population in this study includes non-financial sector business entities listed on the IDX from 2018 to 2021, encompassing 623 companies in 2018, 671 companies in 2019, 717 companies in 2020, and 770 companies in 2021. This study employs a quantitative approach with a positivist paradigm, aiming to explain the effect of ownership structure on the financial performance of business entities in Indonesia.

For research sampling, a purposive sampling technique was used. The following criteria were set for sampling: the company must be listed on the IDX and continuously listed during the 2018-2021 period, present its financial statements in Rupiah, have complete data for each research variable, and have financial statements that close the book on December 31 during the research period. Thus, the sample used in this study comprises 1,536 company-year data points.

Table 1. Sample Selection Result

Condition	Total Data
Companies listed on the IDX 2018-2021	623
Companies that do not meet the sampling criteria	(239)
Companies used as samples	384
Year of research	4
Number of research samples	1.536

Source: Processed data, 2024

Table 2. presents the operational definitions for the variables used in the study.

Tabel 2. Operational Definition of Research Variables

No.	Variable	Operational Definition
Dependent Variable		
1.	ROA	Return of Asset. Proxy of the company's financial performance, as measured by: Net income / Total Assets.
Independent Variable		
1.	IO	Percentage of institutional ownership, as measured by: Number of shares owned by institutional investors/ Total shares outstanding.
2.	GO	Percentage of government ownership, as measured by: Number of shares owned by the government / Total shares outstanding.
3.	FO	Percentage of family ownership, as measured by: Number of shares owned by family members / Number of shares outstanding.
4.	MO	Percentage of managerial ownership, as measured by: Number of shares owned by management / Number of shares outstanding.
5.	FRO	Percentage of foreign ownership, as measured by: Number of shares owned by foreign investors/ Total shares outstanding.
Control Variable		
1.	SIZE	Company size, as measured by: Natural logarithm of total assets.
2.	LEV	Leverage, which is calculated by: Total liabilities/Total assets.
3.	LOSS	Dummy variable, which is given a value of 1 if the company reports a loss in, and is given a value of 0 if the company reports a profit in its financial statements.
4.	NPM	Net Profit Margin Ratio, calculated by: Net profit/Total revenue.

Source: Processed data, 2024

Before conducting hypothesis testing, the selection of estimation techniques is carried out to choose between the common effect model, fixed effect model, or random effect model, using the chow test, hausman test, and lagrange multiplier test. In the first step, researchers compared the common effect model with the fixed effect model (FEM), using the chow test. If the resulting F value is significant (probability value <0.05), then the fixed effect model is better than the common effect model (Ghozali, 2018).

H_0 : common effect model

H_1 : fixed effect model

In the second stage, using the Hausman test, researchers compared the fixed effect model (FEM) and the random effect model (REM). If the prob. chi-square value generated in the model has a probability value greater than 0.05, then REM is better than FEM.

H_0 : random effect model

H_1 : fixed effect model

In the third stage, using the lagrange multiplier test, researchers compared the random effect model (REM) and the common effect model. If the prob. chi-square value generated in the model has a probability value smaller than 0.05, it can be stated that the random effect model is the best estimation technique.

H₀ : common effect model

H₁ : random effect model

The research model applied to test the five hypotheses is as follows.

$$ROA = \alpha_0 + \alpha_1 IO_{it} + \alpha_2 GO_{it} + \alpha_3 FO_{it} + \alpha_4 MO_{it} + \alpha_5 FRO_{it} + \alpha_6 SIZE_{it} + \alpha_7 LEV_{it} + \alpha_8 LOSS_{it} + \alpha_9 NPM_{it} + \epsilon_{it} \dots \dots \dots (1)$$

Variable definition:

ROA = Return on Asset as a proxy for company financial performance

IO = Percentage of institutional ownership

GO = Percentage of government ownership

FO = Percentage of family ownership

MO = Percentage of managerial ownership

FRO = Percentage of foreign ownership

SIZE = Company size

LEV = Leverage

LOSS = Companies experiencing losses

NPM = Net Profit Margin Ratio

The control variables in this research are SIZE, LEV, LOSS, and NPM. The estimation technique used to test the five hypotheses is the fixed effect model analysis technique in a panel data structure.

RESULTS AND DISCUSSION

The results of descriptive statistics for each variable in the study are presented in Table 3.

Table 3. Descriptive Statistics of Research Variables

	N	Minimum	Maximum	Median	Mean	Standard Deviation
ROA	1536	-33.110	27.658	0.020	-0.002	-33.110
IO	1536	0.000	0.984	0.061	0.179	0.000
GO	1536	0.000	0.900	0.000	0.018	0.000
FO	1536	0.000	0.869	0.000	0.034	0.000
MO	1536	0.000	0.894	0.000	0.063	0.000
FRO	1536	0.000	0.998	0.069	0.207	0.000
LEV	1536	0.000	374.260	2.194	4.051	0.000
SIZE	1536	21.907	35.939	28.409	28.437	21.907
LOSS	1536	0.000	1.000	0.000	0.311	0.000
NPM	1536	-39.946	197.162	0.030	0.509	-39.946

Source: Processed data, 2024

Tabel 4. Frequency of Dummy Variables

	Bernilai 1	Bernilai 0
LOSS	477 tahun perusahaan	1.059 tahun perusahaan

Source: Processed data, 2024

In this study, Return on Assets (ROA) is the dependent variable used to measure the company's financial performance. Table 3 presents the average ROA value as -

0.002, with a standard deviation of 33.110. The minimum ROA value is -33.110, observed in the financial performance of PT Bakrie Telecom Tbk. in 2020, while the maximum ROA value is 27.658, recorded for PT Cahayaputra Asa Keramik Tbk. in 2021.

Institutional ownership (IO) serves as an independent variable representing the percentage of ownership by institutional investors in a company. Table 3 shows that the average IO value is 0.179, with a standard deviation of 0.000. The minimum IO value is 0.000, indicating the percentage of institutional ownership in 572 company-years within the research sample. The maximum IO value is 0.984, observed for PT Plaza Indonesia Realty Tbk. in 2021.

Government ownership (GO) is another independent variable, reflecting the percentage of ownership held by the government. According to Table 3, the average GO value is 0.018, with a standard deviation of 0.000. The minimum GO value is 0.000, representing the percentage of government ownership in 1,477 company-years in the research sample. The maximum GO value is 0.900, found in PT Kimia Farma Tbk. in 2018 and 2019.

Family ownership (FO) serves as an independent variable showing the percentage of ownership by family members. The average FO value presented in Table 3 is 0.034, with a standard deviation of 0.000. The minimum FO value is 0.000, indicating the percentage of family ownership in 1,226 company-years within the research sample. The maximum FO value is 0.869, observed for PT Gunawan Dianjaya Steel Tbk. in 2018, 2019, 2020, and 2021.

In this study, managerial ownership (MO) serves as an independent variable, representing the percentage of ownership held by management. Table 3 shows that the average MO value is 0.063, with a standard deviation of 0.000. The minimum MO value is 0.000, indicating the percentage of managerial ownership in 792 company-years within the research sample, while the maximum MO value is 0.894, observed in PT Betonjaya Manunggal Tbk. for the years 2018, 2019, 2020, and 2021.

Foreign ownership (FRO) is another independent variable, reflecting the percentage of ownership by foreign investors. According to Table 3, the average FRO value is 0.207, with a standard deviation of 0.000. The minimum FRO value is 0.000, representing the percentage of foreign ownership in 347 company-years within the research sample, while the maximum FRO value is 0.998, observed in PT Bentoel International Investama Tbk. for the years 2020 and 2021.

After conducting the descriptive statistics stage, the researchers utilized panel data regression analysis techniques using Eviews 12 Software to select the best estimation technique for this study. The results of the estimation technique selection are presented in Table 5.

Table 5. Chow Test Result

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.394	(383.114)	0.000
Cross-section Chi-square	588.635	383	0.000

Source: Processed data, 2024

The F value shown in Table 5. is significant at 1.394, so it can be said that compared to the common effect model, the fixed effect model is better to use. Furthermore, the selection between the fixed effect model and the random effect model is done

using the Hausman test. Table 6. presents the results of the estimation technique selection.

Tabel 6. Hausman Test Result

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	44,613	9	0,000

Source: Processed data, 2024

The prob. chi-square value in the model shown in Table 6. is smaller than 0.05, so it can be stated that compared to the random effect model, the fixed effect model is better. Thus, based on the estimation technique selection test that has been carried out, it can be concluded that the fixed effect model is selected for the research model used. Table 7. presents the test results for the five hypotheses in this study.

Tabel 7. Panel Data Regression Analysis

Dependent Variable: ROA				
Variable	Coefficient	Std, Error	t-Statistic	Prob.
C	-6.542	1.098	-5.956	0.000
IO	-0.220	0.074	-2.980	0.002
GO	0.066	0.015	4.452	0.000
FO	0.370	0.224	1.649	0.050
MO	-0.119	0.139	-0.853	0.197
FRO	0.420	0.112	3.764	0.000
SIZE	0.229	0.038	6.005	0.000
LEV	0.000	0.001	-0.289	0.386
LOSS	-0.101	0.009	-10.746	0.000
NPM	0.003	0.001	1.777	0.038
Weighted Statistic				
R-squared	0.839			
Adjusted R-squared	0.784			
F-statistic	15.204			
Prob(F-statistic)	0.000			

Source: Processed data, 2024

Table 7 shows that the probability value of the F-statistic is 0.000, which is lower than the significance level of 5%. This value indicates that, simultaneously, the independent variables affect the observed dependent variable. Additionally, the coefficient of determination (Adjusted R²) from the hypothesis testing model for the entire research sample is 78.40%. This indicates that 78.40% of the variation in the dependent variable ROA can be explained by its independent variables, while 21.60% is explained by other variables outside the model.

The first hypothesis in this study focuses on the IO variable as an indicator of the percentage of institutional ownership in a company. The hypothesis posits a positive relationship, expecting that a greater percentage of institutional ownership would enhance the company's financial performance. However, Table 7 shows that the IO variable has a significant negative coefficient with a p-value of 0.002, leading to the rejection of hypothesis 1. This finding suggests that institutional ownership negatively affects the company's financial performance.

Kirimi et al. (2022) found that institutional ownership can reduce a company's financial performance because large institutional shareholders may prioritize their own interests over those of minority shareholders, resulting in a decline in financial performance. Similarly, Rusnaeni et al. (2022) reported that institutional ownership diminishes financial performance. However, these results contradict Boshnak (2023), who found that institutional ownership improves financial performance.

The second hypothesis in this study examines the GO variable as an indicator of the percentage of government ownership in a company. The hypothesis posits that a higher percentage of government ownership would positively affect the company's financial performance. Table 7 shows that the GO variable has a significant positive coefficient with a p-value of 0.000, leading to the acceptance of hypothesis 2. This indicates that government ownership indeed enhances the company's financial performance.

The results of this study align with Boshnak (2023), who found that government ownership can improve a company's financial performance. The government, as a powerful and coercive owner, can enhance governance through increased monitoring and direct enforcement (Al-Janadi et al., 2016). Governments have the capacity to influence policies or use insider information on potential policy changes to benefit the companies they invest in. Furthermore, government-owned companies often have political incentives to encourage better performance and higher productivity among their employees, thereby improving financial performance (Kubo & Phan, 2019).

The third hypothesis in this study focuses on the FO variable as an indicator of the percentage of family ownership in a company. The hypothesis posits that a higher percentage of family ownership leads to better company financial performance. Table 7 shows that the FO variable has a significant positive coefficient with a p-value of 0.050, supporting hypothesis 3. This indicates that family ownership indeed improves the company's financial performance.

The results of this study align with Piyasinchai et al. (2023), who found that family firms perform better than non-family firms in terms of financial performance and sustainability reputation. Additionally, Iryanto et al. (2022) noted that family-owned companies tend to manage assets effectively and control costs efficiently, thereby enhancing financial performance. Kao et al. (2019) also observed a positive relationship between family ownership and company financial performance. The results of this study contradict with Boshnak (2023), who found that family ownership can reduce the company's financial performance.

The fourth hypothesis in this study examines the MO variable as an indicator of the percentage of managerial ownership in a company. The hypothesis posits that higher managerial ownership would negatively affect the company's financial performance. However, Table 7 shows that the MO variable has a negative and insignificant coefficient with a p-value of 0.197, leading to the rejection of hypothesis 4. This indicates that managerial ownership has no significant effect on the company's financial performance.

The results of this study align with Kyere & Ausloos (2021), who found that managerial ownership has no effect on a company's financial performance.

According to Fadrul et al. (2021), managerial ownership may not significantly impact financial performance because the proportion of managerial ownership is typically very small, reducing the direct benefits managers derive from their decisions. Consequently, aligning the interests of managers and shareholders becomes difficult, and the presence of managers as shareholders does not significantly impact the company's financial performance. Furthermore, Alamsyah & Yulianti (2022) suggest that a low percentage of share ownership by company management can lead to a lack of motivation to achieve optimal performance, thereby having no significant effect on financial performance.

However, these findings contradict Boshnak (2023), who found that managerial ownership can increase a company's financial performance. Despite this contradiction, the current study and supporting literature suggest that managerial ownership generally does not significantly impact a company's financial health.

The fifth hypothesis in this study focuses on the FRO variable, representing the percentage of foreign ownership in a company. The hypothesis posits that a higher percentage of foreign ownership would positively affect the company's financial performance. Table 7 shows that FRO has a significant positive coefficient with a p-value of 0.000, leading to the acceptance of hypothesis 5. This indicates that foreign ownership indeed improves the company's financial performance.

The results of this study align with Boshnak (2023), who found that foreign ownership can enhance a company's financial performance. According to Boshnak (2023), foreign ownership brings new technology and capital resources, thereby improving firm performance, especially in developing countries. Din et al. (2022) further support this by stating that foreign ownership helps firms gain access to other capital markets and more advanced technologies, enhancing performance.

Additionally, Mardnly et al. (2018) highlight that the presence of foreign investors contributes positively to the company's performance by introducing good corporate governance practices. These practices can significantly reduce agency problems and address the concerns of other stakeholders. Thus, the findings of this study reinforce the positive impact of foreign ownership on corporate financial performance.

CONCLUSION

This study examines the effect of ownership structure – comprising institutional ownership, government ownership, family ownership, managerial ownership, and foreign ownership – on corporate financial performance in all non-financial business entities listed on the Indonesia Stock Exchange (IDX) from 2018 to 2021. Based on the tests conducted, it is concluded that government ownership, family ownership, and foreign ownership significantly improve a company's financial performance. Conversely, institutional ownership is found to reduce the company's financial performance, while managerial ownership does not have a significant impact on financial performance. Investors and creditors are advised to consider the composition of the ownership structure when predicting a company's future financial performance and conducting creditworthiness analyses.

This research has certain limitations. The data includes years during the COVID-19 pandemic, where economic instability affected corporate financial

performance. Therefore, it is recommended that future research be conducted during periods of more stable economic conditions to avoid the distortion of the effect of ownership structure on financial performance due to crisis situations.

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