PalArch's Journal of Archaeology of Egypt / Egyptology

OWNERSHIP STRUCTURE AND CORPORATE GOVERNANCE

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Rita Yuniarti, Rahmat Taufik, Muhammad Irvan Rachmat. Ownership Structure And Corporate Governance. Palarch's Journal Of Archaeology Of Egypt/Egyptology 17(5), 444-453. ISSN 1567-214x

Keywords: Ownership Structure, Corporate Governance, Independent Audit Committee, Independent Commissioner Committee

ABSTRACT

The purposes of the research is to study and to analyze the effect of ownership structure on corporate governance, methods used in this research are explanatory. The unit of analysis is all banking companies listed on the Indonesia Stock Exchange period 2011 to 2018. Data is time series and in the form of financial data and quantitative data. This study uses the entire population of banking companies listed on the Indonesia Stock Exchange period 2011 to 2018.

INTRODUCTION

In a modern economy, banks not only provide money storage services, but also a variety of services for various economic activities (Bollard, 2011). This role has the potential to generate financial and non-financial benefits for the owner, thereby attracting the interest of investors to get involved in the banking industry in a country, not only domestic but also foreign investors. In addition, the increasing involvement of foreigners in banks in a country, especially emerging countries, is triggered by changes in the strategy of penetration and expansion of international banking to other countries today, an economy continues to show positive signs, one of the sectors that enjoys capital inflows from global liquidity is certainly the financial sector including the Indonesian banking industry. The high interest of foreign investors to invest in the banking industry in Indonesia is reflected in the continued increase in foreign bank ownership.

The ownership structure in the Indonesian banking industry is currently increasingly owned by foreigners, as a result of the abundance of funds originating from global liquidity seeking investment outlets that generate high returns and are able to increase the value of these investments. This is evidenced by the portion of foreign ownership through increasing share ownership on the IDX and reaching 38 banks out of a total of 119 banks (June 31, 2015). Thus, of the 41 banks that listed their shares on the Indonesia Stock Exchange, most (38 banks) had a portion of foreign ownership. This number increased from 32 banks out of a total of 120 banks (December 30, 2013). That is, in the percentage of the number of banks, foreign owned banks increased to 31.9% (31 June 2015) compared to 26.7% (31 December 2013). Of the 38 banks, as many as 30 banks the proportion of foreign ownership has reached more than 10% and 11 banks are more than 50% (position at the end of June 2015). (KSEI)

Complexity of the development of the banking industry has caused a variety of internal problems to occur, which has led to a decline in the value of shares, even made a business bankrupt, and caused various problems both for the authorities and for the community. This problem is a corporate scandal (corporate scandals) that began with the problem of corporate governance (governance) in various sectors. In the Asian region and including Indonesia, there have also been major problems that stemmed from careless lending. In the mid-90s, Asian countries such as Thailand, South Korea and Indonesia enjoyed rapid capital inflows which caused these countries' exposure to foreign exchange/forex risk to increase rapidly. The crisis that occurred in 1997 caused the value of foreign currency debt to surge in the local currency units of these countries and put the financial statements of several companies in a depressed condition and eventually defaulted on their obligations (Claessens et al., 2001).

The assessment of the Indonesian Banking Corporate Governance in December 2015 showed that only a few banks had good corporate governance, 66 banks (64.7%) out of 102 banks that were rated as "good" and 1 bank that was rated as "above good", the rest (33 banks) are included in the "good enough" category. (OJK)

OBJECTIVE OF THE STUDY

This research examinesthe effect ofownership structure to corporate governance.

LITERATURE REVIEW

Ownership structure is often considered as an important instrument for corporate governance to overcome the conflict of interests between shareholders and company management. Policy makers, researchers and companies themselves have an interest in whether and how ownership structure can affect company performance (Hu, 2008).

Ownership structure has two dimensions, namely (a) concentration of ownership and (b) owner's identity ((Chen (2012), Lee (2008)). The concentration of ownership provides information about ownership rights to capital from shareholders, while the identity of the owner provides qualitative information about the character of the shareholders. In many studies, the concentration of ownership has a positive impact on company performance as measured by profitability and firm value (Chen, 2012). According to him, the main explanation of the findings is the incentive alignment, in which the majority shareholders (block holders) have the ability and incentives to monitor and control management (as agents), so that the company operates in accordance with the interests of shareholders. The positive effect of ownership concentration is caused by stronger incentives and power to monitor companies at lower costs, also known as the efficient-monitoring hypothesis (Hu, 2008).

Lee (2008) said that monitoring would be more effective when controlling shareholders have adequate knowledge and experience about the company they own. In addition, when the concentration of ownership (block holders) increases, according to Lee (2008) the incentives to improve company performance and to monitor company operations are greater than what happens to dispersed shareholders. Although, in several other studies found the opposite condition.

According to Chen (2012) the main explanation for this condition is over-monitoring. In addition, the concentration of ownership has the potential to cause under-investment problems in companies because it is generally risk-averse, as well as conflicts between the majority owner and other minority company owners (Lee, 2008). Hu (2008) explains that a concentrated ownership structure enables dominant shareholders to marginalize the interests of minority shareholders, which is then known as the expropriation-of-minority-shareholders hypothesis.

RESEARCH MODEL

In the research model (figure 1) the independent variable is ownership structure. The study uses 2 proxies to measure corporate governance, the proportion of independent Audit Committee (IA) and the proportion of Independent Commissaries (CI). Ownership structure is measured using foreign ownership (KA).

Based on the above, the research modelcan be describedas follows:

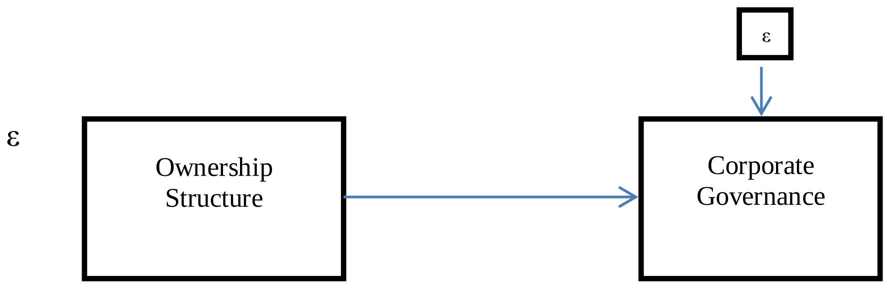

Figure 1: Research Model

HYPOTHESIS

Hypothesis can be defined as a tentative, yet testable, statement, which predicts what a researcher expects to find in an empirical data. Hypothesis is derived from the theory on which a conceptual model is based and often related in nature.The hypothesis proposed in this study is that ownership structure influences corporate governance.

RESEARCH METHODOLOGY

This is an explanatory research – used to describe a causal relationship between variables through hypothetical testing. Whereas, the variables studied in this research are ownership structure and corporate governance

Population and samples studied in this research are 224 data from Indonesia Stock Exchange period 2011 to 2018.

Validity and reliability test with α = 5% are used to evaluate the data quality. Then the simple linear regression is used when data is valid and reliable. The regression equation used to describe the number of change of independent variable to the dependent variable is as follows:

$$IA_{it} = \alpha_{0.1a} + \beta_{1.1a}KA_{it} + e_{1a} \qquad (1a)$$

$$CI_{it} = \alpha_{0.1b} + \beta_{1.1b}KA_{it} + e_{1b} \qquad (1b)$$

KA= Ownership Structure
IA = Proportion of independent audit committee
CI = Proportion of commissioner independent
α_0= Constanta
ßi = Regression Coefficient, n = 1,2
e= Epsilon/Controlling Variable

After regression testing, researcher perform hypothesis testing using t-test and calculate the coefficient of determination to evaluate the effect of ownership structure to corporate governance.
and how much further does the effect on the corporate governance.

DATA ANALYSIS&INTERPRETATION

This study uses a sample of 28 companies in the banking sector which are listed on the Indonesia Stock Exchange. The research period used was from 2011 to 2018, the number of samples obtained was 224.

Ownership structure

The ownership structure in this study is foreign ownership of the total shares outstanding as a form of ownership control over the banking company. Foreign ownership is reflected by the percentage of the value of shares held by foreigners for shares outstanding or listed on the Indonesia Stock Exchange (IDX).

From the sample taken, the average foreign ownership is 24.43% of the outstanding banking shares with a median of 25.68% and a standard deviation of 3.84%. This foreign ownership tends to increase. In the study period from 2011 to 2018, several banks did not show foreign ownership, as indicated by a minimum value of 0,000, namely Bank Artha Graha International Tbk., Bank Negara Indonesia Persero Tbk., Bank Tabungan Negara (Persero) Tbk, Bank Bumi Artha Tbk. , Bank Mega Tbk., Bank Mandiri (Persero) Tbk., Bank Rakyat Indonesia Agro Niaga Tbk., Bank Rakyat Indonesia (Persero) Tbk., Bank Bukopin Tbk., And Bank Windu Kentjana International Tbk., Meanwhile, one bank has the highest number of foreign ownership was 0.990 of shares outstanding, namely Bank J Trust Indonesia (dh Bank Mutiara Tbk, dh Bank Century Tbk).

Corporate Governance

Corporate banking governance is measured by the existence of an independent audit committee and an independent commissioner mechanism which is an important element of the sustainability of the governance. According to Suhadak et al., (2012) the success of corporate governance is determined by the mechanism of the independent audit committee and the independent commissioner.

Independent audit committee

The average ratio of independent members on the audit committee was 40.35% of the total number of audit committee members, with a median of 40.21% and a standard deviation of 1.19%. A total of 13 banks only have 1 (one) independent member of the Audit Committee. On the other hand, there is 1 (one) bank that has all members of the audit committee coming from an independent element namely Bank Panin Indonesia Tbk.

Commissioner independent

The average membership ratio of independent directors was 53.97% of the total number of members of the board of commissioners, with a median of 53.82% and a standard deviation of 1.09%. Independent commissioners are measured by the ratio of how many independent commissioners come from independent elements. In this research period, Indonesian banks were found to have at least 2 (two) independent members.

Based on the results, can be explained as:

Table 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
KA	0.119261	0.041767	2.855357	0.0047
C	-0.000187	0.008698	-0.021521	0.9828

The results showed that the results of the hypothesis test showed t arithmetic> t table, which is 2.855> 1.96, meaning that the ownership structure variable (foreign ownership) had a positive effect on corporate governance with the proxy of the independent audit committee.

Table 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
KA	-0.054487	0.024034	-2.267134	0.0243
C	-4.17E-06	0.005005	-0.000833	0.9993

Hypothesis test results show t arithmetic < t table, which is -2.267 < 1.96, which means that foreign ownership variables have no effect on corporate governance with the proxy of an independent commissioner.

CONCLUSION

The results showed that the proposed regression model was fixed with a calculated F value> F table. Hypothesis test results show that the ownership structure variable (foreign ownership) influences corporate governance with the proxy proportion of the independent audit committee, while foreign ownership has no effect on corporate governance with the proportion of independent commissioners. This shows that at $\alpha = 0.05$ or 95% confidence level, ownership structure in the form of foreign ownership can affect corporate governance with a proxy variable independent audit committee.

The existence of an independent commissioner is required by the authorities (the government) because it is expected to be able to realize additional oversight functions and advisory functions for the running of the company's business wheels. Both functions, if carried out by an independent party to the company, will be more objective and can provide a balance between the interests of the majority shareholders and also the protection of the interests of minority shareholders and the interests of other stakeholders. To emphasize this independence, the authority regulates that an independent commissioner is a member of the Board of Commissioners from outside the issuer or public company. In terms of ownership, independent commissioners may not own shares either directly or indirectly in issuers or public companies.

Meanwhile, for banking, an independent commissioner is defined as a member of the Board of Commissioners who has no financial, management, share ownership and/or family relationship with other members of the Board of Commissioners, Directors and / or controlling shareholders or other relationships that can affect his ability to act independently (PBI on the Implementation of Good Corporate Governance, 2006).

The existence of an independent commissioner is necessary given that in business practice, transactions that often contain conflicts of interest often overlook the interests of the public shareholders (minority shareholders) as well as other stakeholders. The existence of an independent commissioner is even more important, especially in companies that use public funds in business financing, such as banking. Meanwhile, an independent audit committee is a committee formed by the Board of Commissioners with the function of assisting the implementation of the supervisory duties of the company. To maintain its independence, the audit committee membership by the authorities is required to have a membership that is independent of the bank's management function as a company. The audit committee at least has members consisting of: an independent commissioner (as chair of the audit committee); an independent party who has expertise in finance or accounting; and one from an independent party who has expertise in the field of law or banking. The total number of independent commissioners and independent parties is at least 51% of the total number of members of the audit committee.

Foreign investors, especially those in the form of institutions in terms of concern for monitoring the running of the company they own, according to Hideaki et al., (2015) can have 2 (two) forms. First, what is called a positive view is that foreign ownership is interested in being fully involved in the monitoring process, including in determining the members of the independent commissioner in addition to encouraging the provision of incentives to management so as to encourage organizational reforms that lead to an increase in company performance.

As a result, there is a positive correlation between foreign ownership with stock prices and company performance. Second, the so-called negative view is that foreign ownership is less interested in being involved on a daily basis for the reason that: their investment is merely diversifying portfolio investments to other countries, and they feel they face asymmetric information problems. Generally, this happens for foreign ownership of large established companies. As a result, a positive correlation created in the form of a company with good performance invites foreign ownership, and not vice versa. Both the first and second views above see a positive relationship between foreign ownership and company performance. However, the first view is that foreign ownership will affect corporate governance because of their concern for the company's ongoing monitoring process.

The results of this study found that ownership structure in the form of foreign ownership can influence corporate governance with the variable being the focus is an independent audit committee. This is consistent with the results of the study of Mangena and Tauringana (2007), who found a positive and significant relationship between foreign ownership and the independence of the audit committee that was formed. This independence is measured by the proportion of the number of independent commissioners who are members of the audit committee. Meanwhile, in the Indonesian banking industry an independent audit committee has at least one independent commissioner who chairs the committee.

However, the results of this study did not find the effect of foreign ownership on corporate governance with a proxy proportion of independent directors as the results of Ahmed and Iwasaki's (2015) research. The two researchers found that foreign ownership was significantly positively related to the appointment of an independent commissioner. Foreign ownership that is relatively independent of the company's management has a tendency to increase monitoring of the company's operations, including the appointment of an independent commissioner.

Foreign ownership in the Indonesian banking industry follows a positive view that is influential on corporate governance. However, the form is not in the form of an independent commissioner but through an independent audit committee.

Based on the above, it can be concluded that ownership structure influences corporate governance with a proxy for the proportion of independent audit committees. Ownership structure with a proxy for foreign ownership will affect corporate governance because of their concern for the company's ongoing monitoring process. Independent foreign ownership of company management has a tendency to influence the monitoring of company operations, including the appointment of an independent commissioner and an audit committee.

SUGGESTIONS

Foreign ownership for banks must be responded positively. Its influence on the existence of an independent audit committee will support the oversight function of the company's running well. The foreign ownership also has a positive effect on bank profitability and capital. The existence of foreign ownership in the banking industry must have a real contribution on the micro side of the company in the form of improved profitability which will ultimately increase tax contributions to the state, and also on the macro side, namely in the form of an intermediary function needed to finance development. Of course, this must be accompanied by the implementation of oversight functions both on-site and off-site to ensure that positive contributions occur.

The government/regulator should support the implementation of corporate banking governance through oversight of the independence of the audit committee in the banking industry as part of regulations for micro and macro reinforcement, as well as the capabilities of the audit committee members as the supervisory function of the company.

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