The Monitoring Role of Majority Ownership on Indonesian Firm Performance in the Context of Covid-19 Pandemic

Ratna Septiyanti[1]
{ratna.septiyanti@feb.unila.ac.id[1]}

University of Lampung, Indonesia[1]

Abstract. This research provides empirical evidence about the monitoring role of majority ownership on firm performance. The hypothesis testing is controlled by time period of Covid-19 pandemic. The result shows the majority shareholder positively influence the firm performance which is not limited to any period of time. The empirical result gives an insight about the active monitoring role of majority ownership as continuous implementation of good corporate governance mechanism over a different condition, in both pandemic and non-pandemic situation.

Keywords: Majority ownership, corporate governance, performance, Covid-19 pandemic.

1 Introduction

Ownership structure is the main corporate governance issue. Indonesian listed firms mostly have unique ownership structure in a form of business group owned by majority shareholders. Claessens et.al [1], [2], La Porta et.al [3], Harvey et.al [4] and Patrick [5] has conducted previous researches about this type of ownership structure known as a pyramid ownership. Claessens et.al [1] found expropriation issues on majority ownership structure.

Agrawal and Mandelker [6], Demsetz [7] and Shleifer and Vishny [8] provide the empirical evidence of the existence of large shareholders enhances the monitoring of managers. Laporšek et.al [9], Budiyanti et.al [10], Malan et.al [11] and Chen et.al [12] also shows that concentrated ownership affects firm performance. This issue is become important and more interesting to be empirically tested in nowadays context of Covid-19 pandemic. The ultimate power of controlling shareholders is expected to have a positive impact on firm performance in order to keep financial stability during Covid-19 pandemic situation. The objective of this research is to provide empirical evidence about the monitoring role of majority ownership on Indonesian firm performance in the context of Covid-19 pandemic.

The remainder of the article is organized as follows. Section 2 presents the literature review. Section 3 presents the methodology and data analysis. Section 4 presents research results and discussions. Section 5 summarizes the implication and suggestion for future research.

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2 Literature Review

The perspective on corporate governance is based on agency theory. Jensen and Meckling [13] explained that agency relationship on a firm exist due to the separation of ownership and control. This separation is causing an agency problem between principal and agents.

Demsetz [7] explained the theory of the firm based on the structure of ownership. Agency problems arise as a consequences of the ownership structure [7]. Shleifer and Vishny [8] explained that agency problem of concentrated ownership relates to the conflict of interest between majority and minority shareholder. This conflict of interest is known as expropriation of majority ownership [1]. Further, this conflict of interest cause agency cost [8]. Therefore, these kind of condition tend to have an impact on the performance of firms.

Demsetz [7] argued that the existence of large shareholders could lead to a better monitoring on agents. Agrawal and Mandelker [6] found an empirical evidence that support to the active monitoring hypothesis proposed by Demsetz [7] and Shleifer and Vishny [8].This indicates the potential monitoring role of majority ownership over the managers as a governance mechanism.

The effect of ownership concentration on firm performance has been studied by Laporšek et.al [9], Budiyanti et.al [10], Malan et.al [11] and Chen et.al [12]. Laporšek et al. [9] found a significant relationship between ownership concentration and firm performance in Slovenia. Budiyanti et.al. [10] found an interrelation of pyramidal ownership structure on financial policy for Indonesian firms listed in IDX during 2013 to 2015. Malan et.al [11] found a dominant controlling role of majority shareholder in Malaysia during 1990 to 2010, which expropriate minority shareholder. Chen et.al [12] found specific relationship between largest shareholder and performance of listed Chinese firms. Firms under the control of the non-state shareholders have better performance than others [12].

The extreme changes of economics climate during the Covid-19 pandemic make a need to stabilizing the financial of the firm. The ultimate power of majority ownership could be used to enhance survival life of the firm in the Covid-19 pandemic condition. The larger the size of majority shareholder, the better monitoring role were taken over firm performance. Thus, the hypothesis to be tested is: "*Majority ownership have a positive influence on firm performance*".

3 Methodology and Data Analysis

Population and Sample. Population are based on the listing firms in Indonesian Stock Exchange (IDX). Sample determination based on purposive sampling, with the main criterions as follows: Firms published Annual Report year 2020, as an observed Covid-19 pandemic period. For this criterion, only 41 firms has published their 2020 Annual Report at www.idx.co.id until the end of July 2021. It shows that only 6.69% firms made Annual Reporting during Covid-19 pandemic period. Total sample used are 30 firms, since 11 firms was excluded for the existence of Annual Report file error. Time period of analysis is three years, 2020, 2019, and 2018. Total number observation (N) is 90.

Measurement of Variables. Dependent variable in this research is firm performance, which symbolized as Y and measured by earnings per-share. Independent variable in this research is majority shareholder, which symbolized as X_1 and measured by the percentage of shares that owned by majority shareholders. This research controls the time period of Covid-19 pandemic, which symbolized as X_2 and measured by dummy variables, the value is 1 if the reporting year is 2020 as pandemic periodic time and the value is 0 if the reporting years are 2019 and 2018 as a non-pandemic periodic time.

The Models. The analysis based on two regressions models. Model 1, as a main model, is used to test the influence of majority shareholders on firm performance on the time period of Covid-19 pandemic. For sensitivity analysis, Model 2 is used to investigate the consistence of the result, by excluding the time period of Covid-19 pandemic in regression model.

$$\textbf{Model 1: } \boldsymbol{Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon}$$

$$\textbf{Model 2: } \boldsymbol{Y = \alpha + \beta_1 X_1 + \varepsilon}$$

Where: Y = Performance
X_1 = Majority Ownership
X_2 = Pandemic Period

4 Research Result and Discussion

Descriptive Statistics. The data characteristics shows in Table 1. Minimum earnings per share is found in sample firm coded as ACST in year 2020. ACST as a construction company has the lowest performance during the Covid-19 pandemic in the sample. Maximum earnings per share is found in the sample firm coded as UNTR in year 2019. UNTR's performance decreased during the Covid-19 pandemic as shown that UNTR has the highest performance amongst the sample in a non-pandemic year. The average performance in the sample is 484.80.

Table 1. Descriptive Statistics

Variable	Min	Max	Mean	Standard Deviation
Y	-558	3,033	484.80	697.69
X_1	0.31	0.99	0.63	0.19
X_2	0	1	0.33	0.47

Source: Data proceed, 2021.

The firm with the highest majority ownership is a sample firm coded as MEGA. The majority shareholder is PT. Mega Corpora which own 99.99% of the share. The firm with the lowest majority ownership is a sample firm coded as WOMF. The majority shareholder was T.P. Rachmat Family which own 31.03% of the share. The majority ownership in the sample on average own 63% of the share. X_2 as a control variable, has a minimum value zero which means non-pandemic period. The maximum value is one which means Covid-19 pandemic period.

The Result. The testing for the influence of majority shareholders on firm performance on the time period of Covid-19 pandemic is based on Model 1. The results of regressions are shown in

Table 2. Model 1 shows that the value of β_1 is 0,153 with p-value 0,063. It means that variable X_1 have a positive influence on variable Y which is statistically significant at the level of confidence 10%. The value of β_2 is -294,775 with p-value 0,908. It means that variable X_2 have a negative influence on variable Y, but it is not statistically significant at the level of confidence 10%.

Table 2. The Result

Model 1: $\boldsymbol{Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon}$

	α **(Sig.)**	β_1 **(Sig.)**	β_2 **(Sig.)**	$\mathbf{R^2}$	**Adjusted** $\mathbf{R^2}$	**F (Sig.)**	**N**
Model 1	4066.854	.153	-294.775	.040	.018	1.802	90
	(.017)**	(.063)*	(.908)			(.0171)**	

* : significant at 10%
** : significant at 5%

Source: Data proceed, 2021.

The testing for sensitivity analysis based on Model 2, which is used to investigate the consistence of the result, by excluding the time period of Covid-19 pandemic in regression model. The sensitivity analysis for this result is shown in Table 3.

Table 3. The Sensitivity Analysis

Model 2: $\boldsymbol{Y = \alpha + \beta_1 X_1 + \varepsilon}$

	α **(Sig.)**	β_1 **(Sig.)**	β_2 **(Sig.)**	$\mathbf{R^2}$	**Adjusted** $\mathbf{R^2}$	**F (Sig.)**	**N**
Model 2	3963.831	.154		.040	.029	3.631	90
	(.006)**	(.060)*				(.060)*	

** : significant at 5%
* : significant at 10%

Source: Data proceed, 2021.

The result from Model 2 shows the value of β_1 is 0,154 with p-value 0,060. It means that variable X_1 have a positive influence on variable Y which is statistically significant at the level of confidence 10%. These result is consistent in both models. The value of β_1 found positive and statistically significant, both in Model 1 and Model 2.

The overall results provide an empirical evidence that majority ownership have a positive influence on firm performance but pandemic condition have no effect on it. This indicates that the influence of majority ownership exists not only in pandemic period but also in time period before the pandemic. These empirical results show that the monitoring is a continuous governance mechanism over firm performance at any economics condition. This result is consistent with Agrawal and Mandelker [6] which supports the active monitoring hypothesis of large shareholder as in theory of the firm proposed by Demsetz [7]. Thus, the monitoring role of majority shareholders reflected as a positive impact on firm performance over Covid-19 pandemic condition.

5 Implication and Suggestion for Future Research

The results of this research give an insight about the implementation of good corporate governance over a different condition in timeline. The monitoring role of majority ownership have a positive impact on firm performance in the context of Covid-19 pandemic condition. These results have an implication on investment decision making for potential investors to consider the positive influence of majority ownership on firm performance. It also have an implication on developing the governance framework in specific economics condition. Future research could expand the event period of pandemic in order to study the post-pandemic condition in new normal period.

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