CHAPTER I

INTRODUCTION

1.1. Background

At the time of unpredicted global competition, every company attempts to attain the objectives by continuously increasing its performance. The performance of a company is related to the company's management roles and functions in planning, organizing, leading, and controlling. The company management performs each task in order to achieve the intended objectives effectively and efficiently. Thus, the improvement of company's performance highly depends on the management's ability in managing its company.

Alongside with the importance of the company management, the contribution of the company ownership is also significant in selecting its management to increase the value of the company which results on the prosperity of the owners or shareholders. Maximizing the value of the company is significantly wider than maximizing profits based on several reasons, which are maximizing the value considers the effect of time to the money value, the various risks to the company's revenue flow, and also the quality of the expected flow of funds received in the future (Weston & Copeland, 1995: 134).

To find out the performance of company in Indonesia, Indonesia Stock Exchange (IDX) can be the barometer since it is the largest stock exchange in Indonesia with 462 listed companies and a combined market capitalization of USD 426.78 billion at the end of year 2012 (*ww.wikipedia.org*). Generally, the companies listed on Indonesia Stock Exchange (IDX) is Limited (Ltd.) Company. The shares can be bought and sold at the capital market so that the changes in corporate ownership can be easily done without the need to dissolve the company.

According to Tandelilin and Wilberforce (2002), Limited Company has the organizational structure which effectively separates the ownership function and decision-making function. Simply, it means that there is a separation between the owners and managers in the organizational structure. Owners comprised of people who own the stocks or shares of the company (stockholders or shareholders), while managers consisted of the management team assigned by the owner to carry out the company activities.

Among the 9 sectors and various subsectors of the company listed on Indonesia Stock Exchange (IDX), Property and Real Estate Company is one of the sectors that included as the booming investment in Indonesia. Many investors from other countries are interested in investing their funds in property and real estate sector of Indonesia, especially after the subprime mortgage in Europe and America continents. It result in Indonesia was in the seventh rank of the countries experiencing high acceleration of property and real estate sector, after China, United State, India, Russia, Brazil, and United Kingdom in 2012. Another achievement is based on the research by Urban Land Institute in 2013, Jakarta is the most attractive location for property and real estate investment in Asia Pacific region. It is very surprising because in the previous years, in 2012 and 2011, Jakarta only ranked 11th and 14th. In addition, during Real Estate Indonesia (REI) Expo 2013, the investment growth in property and real estate sector was not only in Jakarta as the capital city, but also in the regions outside Java island, including in Riau, South Sumatera, South Sulawesi, and North Sulawesi (*www.neraca.co.id*).

According to Schreiben (2013), property analysts predict that in less than 10 years, the property and real estate in Indonesia will play a role as one of the contribution sources to the world economy. Based on the data provided by International Monetary Fund (IMF) and Pramerica Real Estate Investors Research, in 2011, the contribution of Indonesia's property and real estate sector was only USD 189.1 billion. But its value is predicted to grow by 200 percent rate in 2021 to USD 563 billion which can lead Indonesia to be the world's largest contribution in property and real estate sector, over South Korea, Canada, and Japan.

The development in property and real estate sector is currently providing the opportunities and chances to the business players. There are several factors that affect the development in this sector. Firstly is the political and economic stability in Indonesia. Both sectors are very helpful in creating high foreign investment climate in Indonesia. The second, the rapid growth of population that induces the supply of the property and real estate is less than the demand from the society. The third, the mortgage interest rate in Indonesia is declining with the average of 11 percent for basic mortgage interest rate. These opportunities invite both domestic and foreign investors to invest in Indonesia and cause the funds flow into Indonesia through foreign investment as the capital to improve the performance of property and real estate sector. The following table shows the property and real estate development in Indonesia in the year of 2006 to 2011.

Table 1.1

Property and Real Estate Sector Development in Indonesia 2006-2011

Property and Real Estate Sector				
Year	**Total Trading Value (Rp)**	**Growth of Total Trading Value (%)**	**Total Volume Shares**	**Growth of Total Volume Shares (%)**
2006	27,779,465,592,150	-	68,545,337,148	
2007	99,472,170,878,951	258.08	193,768,210,681	182.69
2008	38,582,707,048,144	(61.21)	116,687,839,427	(39.78)
2009	53,368,976,472,332	38.32	211,469,185,201	81.23
2010	90,602,636,477,068	69.77	287,836,550,145	36.11
2011	73,752,145,436,448	(18.60)	231,325,439,952	(19.63)

Source: Capital Market Statistic BAPEPAM-LK, processed data

Based on the table above, the total trading value and total volume shares on property and real estate sector is growing, although there are declining between 2008 and 2011. The total trading value declined 61.21% in 2008 and 18.60% in 2011, while the total volume shares decreased 39.78% in 2008 and 19.63% in 2011. This can happen because of various factors, whether it is internal factor, such as the company's objectives and the corporate governance or external factor, such as the condition of general economy.

Corporate Governance refers to the framework of mechanisms and practices by which corporations are controlled and directed. It relates to the company's relationship with its all stakeholders. There are some concepts about corporate governance, among others, proposed by Prowson (1998) in Nur'aeni

(2010: 3) who states that corporate governance is a tool to ensure the directors and managers to act in the best interests of the shareholders or investors.

The application of good corporate governance can assist the company to optimize the allocation of the resources so that the company will experience a significant growth. The significant growth of the company maximizes the shareholder's wealth and it can improve the shareholder's credibility towards the company. Thus, the application of good corporate governance in all aspects in the company is a requirement in order to become a solid and leading company.

The good corporate governance can be achieved whenever there is a good corporate policy in organizing the company's ownership structure. Although there is a separation between ownership and the management, there is still the tendency that the founder also can act as the commissioner or management board. It triggers the agency problem (conflict) between the owners and managers or the majority and minority shareholders. Besides, the previous study also shows that the agency conflict could arise from the separation of the ownership and the management (Jensen & Meckling, 1976).

Agency problem has been discussed in the agency theory. Agency theory is a set of idea on organizational control based on the belief that the separation of the ownership from management creates the potential for the wishes of owners to be ignored (Pearce & Robinson, 2011: 35). There are two main components of agency theory which are principals (owners or shareholders) and agents (managers). The separation of control from ownership implies that professional managers manage a firm on behalf of the firm's owners which means that managers have the obligation to maximize the shareholder's welfare, but however on the other hand, managers also have the intention to maximize their own welfare. The differences of interest can cause the managers take decision in opposite with the owners and it can lead to the agency problem.

The companies can avoid the agency problem, perform the good corporate governance, and achieve its objectives if the company has enforced the appropriate ownership structure. Ownership structure is defined by the distribution equity with regard to votes and capital but also by the identity of the equity owners. The ownership structure in Indonesia can be classified as foreign ownership, government ownership, institutional ownership, managerial ownership, family ownership, and public ownership.

According to Wahyudi and Pawestri (2006), the ownership structure can influence the company's activity which in turn has effect on the company's performance in achieving the objective which is maximizing its value. The information about the company's performance can be obtained through the routine performance evaluation. The performance evaluation is used by the managers to assist them in managing the organization's operations effectively and efficiently and in decision-making. In this context, the identification of financial evaluation determinants can represent whether the company's performance improves or not.

The financial performance evaluation can be measured by various financial performance analysis, such as the financial ratio analysis (profitability ratio, liquidity ratio, asset management ratio, financial structure or capitalization ratio, and market test ratio), Economic Value Added (EVA) and Market Value

Added (MVA), Cash Flow Analysis (CFA), and the other types of analysis. Economic Value Added (EVA) and Tobin's Q will be used in this study. It is because Economic Value Added (EVA) acts as the economic measurement where the welfare can be created if the company is able to fulfill the operating costs and the cost of capital (Tunggal, 2008:1), while Tobin's Q acts as the ratio of the market value of firm (Haosana, 2012: 31).

Economic Value Added (EVA) was devised by Stern Stewart & Co as a measure of company's financial performance based on the residual wealth calculated by deducting cost of capital from its operating profit. "Economic Value Added (EVA) stands well out from the crowd as the single best measures of value creation on continuous basis" based on in-house research and it attempts to capture the true economic profit of the company (Horne & Wachowicz, 2007: 142). Similarly, Tobin's Q (Q ratio) also can be used to measure the company's performance. It is the ratios between physical asset's market value and its replacement value, introduced by James Tobin and William Brainard.

The relationship between the ownership structure and company's performance has been discussed by previous research. One of the researchers was by Devi Indrayani. Devi Indrayani (2009) analyzes the ownership structure to the firm's performance on banking sector listed on Indonesia Stock Exchange. By using spearman correlation analysis, the result shows that government and public ownership had low influence towards bank's performance while one way ANOVA shows that there was relationship between ownership structure with Capital Adequacy Ratio (CAR), Return on Asset (ROA), and the Operational Cost toward the Operational Profitability (BOPO), and there was no interaction between ownership structure and Non-Performing Loan (NPL).

Another study was by Ongore et al in 2011. They analyzed the impact of ownership structure to the firm's performance by utilizing 42 listed companies in Kenya. The research shows that ownership concentration and government ownership had significant negative relationship with firm performance, while foreign, diffuse, corporation, and managerial ownership had significant positive relationship with firm performance. Moreover, Wahla et al (2012) examined non-financial listed companies on Karachi Stock Exchange with the result of managerial ownership has a significant negative relationship with firm performance, concentrated ownership has shown insignificant relationship with firm performance, leverage shown a significant negative relationship with firm performance, and insignificant relationship between Asset Turnover and firm performance.

On the previous studies, the ownership structure's impact on the firm's performance has some different results based on the research findings. The variable used in the previous research was also different which make the author considers to do another research regarding the influence of ownership structure to company's performance with the independent variable of institutional ownership, and managerial ownership. The evaluation of company's performance will utilize Economic Value Added (EVA) and Tobin's Q (Q ratio) as the dependent variable, while size of the company will be the control variable. Hence based on the explanation above, the author is interested in conducting research entitled **"The**

Influence of Ownership Structure to Firm's Performance of Property and Real Estate Sector Listed on Indonesia Stock Exchange (IDX) in the Year of 2010-2013".

1.2. Problem Statement

From the background description above, then there are some research problems that can be formulated as stated in the following:

1. How are the ownership structure's development and the company's performance of property and real estate sector companies listed on Indonesia Stock Exchange in the year of 2010-2013?
2. Does the institutional ownership have the influence towards the firm's performance of property and real estate sector listed on Indonesia Stock Exchange in the year of 2010-2013?
3. Does the managerial ownership have the influence towards the firm's performance of property and real estate sector listed on Indonesia Stock Exchange in the year of 2010-2013?

1.3. Objectives of Research

In accordance with the problem formulation, there are some objectives of the research, which are:

1. To examine the ownership structure's development and the company's performance of property and real estate sector companies listed on Indonesia Stock Exchange in the year of 2010-2013.

2. To investigate the influence of institutional ownership towards the firm's performance of property and real estate sector listed on Indonesia Stock Exchange in the year of 2010-2013.
3. To investigate the influence of managerial ownership towards the firm's performance of property and real estate sector listed on Indonesia Stock Exchange in the year of 2010-2013.

1.4. Importance of Research

The research is expected to provide some benefits as the following:

1. For the Related Institutional

The research results are anticipated can prompt the related institutional, such as the companies on property and real estate sector or the capital market institution to keep improving its performance continuously and create more value to the stakeholders.

2. For the Shareholders

The analysis about the influence of ownership structure to the company's performance are expected to provide the better suggestions to the shareholders or investors as the contribution in making investment decision on property and real estate sector in Indonesia.

3. For the Regulator

This research is expected can be used as one of the references in evaluating the policies and regulations that have been implemented. Furthermore, this research can also assist the regulator in creating the new policies and regulations in accordance with the current condition.

4. For the Academician

This research can be used as the comparison with the other studies related to the influence of ownership structure towards the performance of company on property and real estate sector. Moreover, the author expects that this research can become the references to other researcher who interested in doing research about the similar topic.