The Effect of Ownership Structure on Firm Value in Indonesia

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ABSTRACT

The company owner plays an important role in company performance. The company owner can be classified into several categories (ownership structure types). And, it has been well-known that type of ownership has different impact on the value of firm. Therefore, it is interesting to deeply looked at Indonesian setting with a unique evolution of firms. In Indonesian companies' ownership structure is very unique. Most Companies in Indonesia evolved from a single-owner firm into a conglomerate (firm with many branch firms but small in size). The ownership and control are on the hand of a founder/s and his/her family members. Consequently, one family controls a lot of firms. Recently, the companies have surrendered a small portion of ownership but the control remains with the family founder. This study aims to identify and analyze the influence of managerial ownership, institutional ownership and foreign ownership on the value of firm. Research was conducted on manufacturing companies listed in Indonesia Stock Exchange (BEI) in the period of 2004-2008 with a sample of 455 firms. Dependent variable used in this study is value of firm (as proxied by market capitalization) and independent variables consist of managerial ownership, institutional ownership, foreign ownership and control variables (size and leverage). Panel data analysis with fixed effect model is employed to analyze the data. The results shows that simultaneously, managerial ownership, institutional ownership, and foreign ownership significantly influence the value of firm on manufacturing companies listed in Indonesia Stock Exchange. Furthermore, managerial ownership and institutional ownership have negative significant impact on firm value. This finding is consistent with theory and a number of empirical studies. On the other hand, foreign ownership has no significant impact on the firm value. Thus, it does not enough evidence that foreign ownership has impact on the firm value.

Keywords: Ownership Structure, Managerial Ownership, Institutional Ownership, Foreign Ownership, Firm of Value.

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Introduction

Ownership structure refers to power to control in a company that implicates a capacity to determine and make decision on a company policy. Ownership structure becomes essential because in agency theory most of the arguments pertinent to agency conflict emerge from the separation of ownership and management and agency conflict does not occur in 100 percent ownership by management (Jensen dan Meckling, 1976). Ownership structure dictates the form of agency problem arise in a company that in the end will determine the ownership distribution and control in an organization. Several researchers believe that ownership structure affects the operation of a company which will influence company performance. It is caused by the existence of control by owner. (Wahyudi and Hartini, 2006).

A study about ownership structure is interesting because there is widespread opinion that company value is very much influenced by who is the owner. It is reasonable because an owner has huge authority in selecting management which will determine the company direction in the future. (Hadad, et al., 2003). The appointment of a manager by shareholder to manage the company in reality is often time faces many problems because the objectives of owner is not compatible that of (*agency problem*). With its authority, a manager could act to satisfy its own interest and sacrifice the interest of shareholder.

Based on agency theory, shareholders almost always influence management to maximize value of the firm. Siallagan and Mas'ud (2006), Diyah and Erman (2007), Sujoko and Ugy (2007), and Khan *et al.,* (2007) give evidence that managerial ownership negatively affect firm value because the increase in managerial ownership give unpleasant response from market. The increase of managerial ownership is judged by market as a bad thing because it will be more oriented to the interest of management whereas the interests of other parties are ignored. On the hand, Lua *et al.,* (2007), Harjito dan Nurfauziah (2006) and Kumar (2004) do not find any effect of managerial ownership on firm value because management does not control on firm policy. Management is mostly control and direct by majority owner so as management is merely doing what majority owner demand. Furthermore, Wahyudi and Hartini (2006), Cristiawan and Josue (2007) and Rachmawati and Hanung (2007) find a positive effect of managerial ownership on firm value because managers as well as owners feel responsible to make a policy that could escalate firm value in order to their wealth as an individual owner will also rise.

Agency problem is generally caused by the identity of shareholder. For instant, institutional shareholders are more effective in doing control because their resources are adequate to conduct that control.

Kumar (2004), Rachmawati and Hanung (2007) and Chitru *et al.,* (2006) give evidence that ownership by institutional investors has positive impact on firm value because institutional investors comprising of professionals that have capability in evaluating firm performance through informal discussion with management, direction in operation and decision making. This finding is also supported by Lee (2008) who states that control function will be more effective if shareholders have better capability and experience in business and finance. On the other hand, Sujoko and Ugy (2007) find that institutional ownership has negative impact on firm value. Furthermore, Wahyudi and Hartini (2006) and Diyah and Erman (2007) find that institutional ownership does not any effect on firm value however, indirectly institutional owners have association with firm value through control mechanism toward management, by conducting intense control on managers so as managers will reduce their intention to add more share ownership, market will react positively and consequently market will increase their thrust on the company.

The assumptions that the stakeholders involve directly in a company will maximize the value of a company is not always true. Foreign ownership does not have any effect on firm value (Kumar, 2004). On the contrary, Setiawan et al. (2006) indicate that there is a negative relationship between foreign ownership and firm value. Wei *et al.,* (2005), Chevalier *et al.,* (2006) and Umar & Ali (2004) find foreign ownership have positive effect on firm value. Foreign investors could give access to international market for managerial talent and technology which at the end will be able to present improvement to the company operation. In general, foreign investors are much more able in management because they have capability and resources (Lee, 2008). On the other hand, Greenaway *et al.,* (2009), find non-monotonic relationship between foreign ownership and company value, joint venture has better performance than companies owned 100% by foreigners. Though, at first productivity and profitability increase as foreign ownership increase, and then the company performance decrease as foreign investors own more than 65%.

Ownership structure plays an important role in determining the form of agency problem in a company and could affect the firm value both in positive or negative ways for the development of a company in the future. This is an important matter for this study that will discuss the effect of managerial ownership, institutional and foreign ownership on the value of companies.

Specifically, the objectives of this study are 1) to investigate and analyze the effect of managerial ownership on firm value. 2) to investigate and analyze the effect of institutional ownership on firm value. 3) to investigate and analyze the effect of foreign ownership on firm value.

Literature Review and Hypotheses

Agency Theory

Agency theory which developed by Jansen andMeckling (1976) is used as a grounded theory in this study. Agency theory can be viewed as a contractual model between two ormore parties, whereby one party called the agent and the otherparty called the principal (Mursalim, 2009). This theory emergedafter the phenomenon of separation of ownership and management company (management), especially in large modern companies. The purpose of separation of company ownership and management is that the owners can obtain the maximum return and spend cost as efficient as possible with the company managed by professionals.

Agency theory states that the company's performance is affected by a conflict of interest between the principal agent that arises when each party trying to reach the desired level of prosperity, conflicts of interest between agents and principals is referred as the agency problem (Setiawan et al., 2006). Party managers as agents have more information about the company's capabilities and risks, while the principals (owners / investors) know very little problems that occur within the company. Managers have information regarding the procedure of how to manage the company. While the owner as an individual /institution has a small part of information about the state of the company as a whole so they don't understand the decisions made by the manager, in addition, shareholders are also not so eager to find out about how to run the company (and Nurfauziah Harjito, 2006).

According to Jensen and Meckling (1976) there are several alternatives to reduce the agency problem includes, first, by increasing the company's ownership or managerial ownership by the management and in addition the managers feel the direct benefits of the decisions taken and also if there are losses arising as a consequence of the wrong decision. The addition of managerial ownership has the advantage to align management interests with shareholders. And second, by enabling the monitoring by institutional investors. The existence of ownership by institutional investors such as insurance companies, banks, investment companies and other institutional ownership will encourage greater optimal supervision to management performance, because the ownership of shares representing a source of power that can be used either to support to the presence of management or otherwise.

Ownership Structure

Ownership structure is the composition of ownership in a company that affects the value of the firm. Ownership structure combines the power of control which is owned by shareholders and the identity of the shareholder from different types of owners such as management, institutional, or foreigners. Managerial ownership is the percentage of stock ownership by management that actively participates in corporate decision-making (directors and commissioners). Institutional ownership is the percentage of stock ownership by institutional investors such as investment companies, banks, insurance companies and property agencies and other companies. While foreign ownership is the percentage of stock ownership held by parties from abroad (foreign), both individuals (foreign investors) and institutional (Kumar, 2004).These holdings represent a source of power that can be used to support the presence of management or otherwise.

Ownership of shares represent a source of power that can be used to support the presence of management or otherwise. Ownership structure refers to the power to control in a company that has implications for the capacity of the company's established policies. Berle and Means (1932) in Sugiarto (2009:37) with the control measures the percentage of ownership, as follows:

Table 2.1
Types of control

1.	Control of private property or group of shareholders	80% or more stock ownership
2.	Majority control	50% – 80% stock ownership
3.	Minority control	20% - 50% stock ownership
4.	Management control	< 20% stock ownership

Source: Berle& Means (1932) in Sugiarto (2009)

Fama (1978) in Wahyudi and Hartini (2006) stated the company will be reflected in stock market prices. Prosperity of shareholders increases when stock prices increase. The greater the stock price it will increase the value of the company. The Value of the firm is investor perception of the companies that are often associated with stock prices (Fakhruddin and Hadianto, 2001). For companies that issue shares in the capital market, stock prices traded on the stock exchange is an indicator of corporate value, if the stock price is high then the firm value is also high. Market value approach is an approach most commonly used in assessing the company, which provides the final assessment and perhaps the most comprehensive on the market status of the company and summarize the views of investors about the company as a whole, management, earnings, liquidity, and future prospects of the company (Diyah , 2006; Cristiawan,2007).

Ang (1997:6.3) stated that market price is the selling price of the stock as a consequence of bargaining power between sellers and buyers so market value shows fluctuations of stock prices. If the market price is multiplied by the number of issued shares (outstanding shares) it will get the market value. Market value is then called market capitalization that reflects the company's current net worth (Black, 2001). According to Sharpe et al., (1995), market capitalization is the aggregate market value of a company which is calculated from the price of the stock market today (closing price) multiplied by the number of shares outstanding. With an assumption that the stock price used is the closing price or last price and the price is not likely to change until the stock exchange is return and the last price represents the value for investors, while the number of shares outstanding means the amount of shares issued and actually publicly owned.

Hypothesis

Managerial ownership is one of the control mechanism to reduce the agency problem, but the increase in managerial ownership cause managers to act expropriation that benefit them personally so that it lower the value of the firm (Claessens et al.,2000). If the majority of shareholders to expropriation by the time they held the stock in large composition, minority shareholders and the market will discount the price of the company's stock market, so that the company's value will drop and eventually the majority shareholders suffer from losses. There are many form of expropriation, for example, insider that sells output (transfer pricing) or asset (asset stripping), diversion of business opportunities, putting family members in managerial positions, or excessive executive pay. Institutional ownership has a very important role in minimizing agency conflicts between managers and shareholders. But the increase in institutional ownership makes the institutional side as the majority party is likely to take the expropriation action against the minority (and UgySujoko, 2007). Foreign ownership can monitor and control the management policy as it has both the ability and experience in finance and business. Foreign ownership had a positive influence on increasing the value of the company because it can open up access to international capital markets and access to advances in technology companies (Wei et al., 2005; Chevalier et al., 2006; Umar and Ali, 2004). From the description it formulated the following research hypothesis:

H1: Managerial Ownership, institutional ownership and foreign ownership affect firm value.

Managerial ownership is one of the control mechanism to mitigate agency conflicts because they are able to equate the interests between owners and managers, so the higher managerial ownership the higher the value of the company. With the existence of managerial stock ownership, the managerial, will have the direct benefit from the decision making but also will directly bear the risk if the decision was wrong. Thus the managerial ownership is an incentive to improve company performance. Research by Rachmawati and Hanung (2007) and also Masdupi and Adiana (2009) find that managerial ownership has a positive effect on firm value. While the results from Kumar (2004) state that managerial ownership does not affect the value of the company, but other empirical evidence shows indications of irregularities by the managerial as research by Claessens et al. (1999), Lee and Keunkwan (2003), Siallaganand Mas'ud (2006), Diyah and Erman (2007), and Ugy Sujoko(2007), and Khan et al., (2007) gives the conclusion that there's a negative effect of managerial ownership against the company, because the increase in managerial ownership will lead to less response in the market, the market assumes that the increase in the proportion of ownership led to a company performance that oriented on the interest of the managers

So that the interests of outside parties will be ignored and also high managerial ownership will lead to decisions taken by the managerial will be more likely to benefit himself which will steer the company and the company's value will tend to decrease. In this study the hypothesis proposed by the following formula:

H2: Managerial Ownership has negative effect on firm value.

The presence of institutional investors were considered to be an effective monitoring mechanism in any decision taken by the manager, because it is the institutional professionals who have the ability to evaluate the performance of companies, ranging from informal discussions with management, to control all operations and corporate decision-making. Institutional ownership will oversee the decisions taken by management and oversee the implementation of the company in advance. This opinion is supported by the results of research conducted byKumar (2004), Chitru et al., (2006), and Rachmawati and Hanung(2007), which provides evidence that stock ownership by institutional ownership has positive effects on firm value because the large institutional will have a greater incentive to monitor managers of the board members, who may have little or no wealth invested in the company. Institutional investors vote more actively than other owners and even more active in opposing proposals that would harm shareholders.

The results of Wei et al., (2004) and Sujoko and Ugy (2007) provide evidence that institutional ownership has a negative effect on firm value. While Diyah (2007) suggests that institutional ownership has no effect on the value of the company because institutional ownership has not been effective in monitoring the management in enhancing corporate value. This indicates that the ownership of institutional mechanisms fail to enhance company value. In this study the hypothesis proposed by the following formula:

H3: Institutional Ownership has negative effect on firm value.

Foreign investors tend to be more conservative in selecting stock investment he bought compared to domestic institutional investors. On the market that less liquid (usually in developing countries), foreign institutional investors will do the monitoring of the company in order to obtain better yields. The results of Wei etal., (2005), Chevalier et al., (2006) and Umar and Ali (2004) show that foreign ownership positively affects firm value. According to them foreign investor can monitor and control the management policy as it has both the ability and experience in finance and business. Foreign ownership is also possible to give access to international capital markets and, in turn, access to technological advances and international managerial talent. However, it is contrast to the results that carried by Kumar (2004), which shows foreign ownership did not affect the value of the company, while the results of the study from Setiawan et al., (2006) shows that foreign ownership has a negative relationship to company performance. In this study the hypothesis proposed by the following formula:

H4: Foreign ownership has a positive effect on firm value.

Population and Sampling

The population in this research is the manufacturing companies registered at Indonesian Stock Exchange (ISE) during the period of 2004-2008. The companies were selected based on the criteria of *purposive sampling*, that the companies 1) are registered at ISE from 2004 to 2008, 2) submitted their *Audited Annual Report* and completed financial report each year, 3) The report should contain information on ownership share, or at least the name of shareholders with ownership percentage of more than five percent of the total share.

Type and Source of Data

The research uses secondary data from annual company's financial report from year 2004 to 2008. Most of the reports were acquired from Jakarta Stock Exchange while others were obtained through the company's websites. The values of share were gained from *Datastream database* and *JSX Monthly Statistics*. Data on direct ownership of the company was gained from the financial report, data center Jakarta Stock Exchange and Indonesian Capital Market Directory.

Definition of Operational Variable

The following are the definitions used in this research:

Dependent Variable: *market capitalization* was obtained from the formula presented by Sharpe *et al.* (1995), and Chen & Steiner,1999):

$$\textit{market capitalization} = \textit{Ln}\ (\textit{share price} \times \textit{number of circulated share})$$

Independent Variable

Ownership Structure i.e. the ownership composition in the company which affects the company's value. Ownership structure consists of:

1. Managerial Ownership (MNGR) as defined by Kumar (2004); Rachmawati & Hanung (2007); Masdupi & Adiana (2009):

$$\text{MNGR} = \frac{\text{The number of shares owned by managers, commissioners and directors}}{\text{The total shares of the company}} \times 100\%$$

2. Institutional Ownership (INST), formulated as (Wei *et al.,* 2005; Diyah & Erman, 2007):

$$\text{INST} = \frac{\text{Number of institutional shares + blockholders shares}}{\text{The total shares of the company}} \times 100\%$$

3. Foreign Ownership

   Foreign ownership is measured by dummy variables i.e.: 1 (one) if there is foreign ownership and 0 (zero) for no foreign ownership (Chevalier *et al.*, 1995). Definition of foreign ownership used in this research is the ownership of company share by both individual investor and entity which is stated in the share ownership report published by Indonesian Stock Exchange.

Control Variable

Control variable is the variable that is used controlled or to neutralized the effect on the relationship between dependent variable and independent variable. The controlled variable in this research are:

1. Size of company

   Size is calculated with the logarithmic of the total assets. Then a median split was established to categorized big and small company, defined by dummy variables i.e. 1 (one) for big company and 0 (zero) for small company.

2. *Leverage*

   Leverage is calculated from *Debt to equity ratio* (DER)

$$Debt\ to\ Equity\ Ratio = \frac{Total\ \ Debt}{Total\ \ Equity} \times 100\%$$

Result and Discussion

Descriptive Statistics

This research uses data from 91 manufacturing companies registered at Indonesian Stock Exchange in the period of 2004 to 2008. The number of sample, maximum and minimum values of samples as well as mean value and also the level of deviation data dissemination from each variable is presented in Table 4.1.

Table 4.1 **Descriptive Statistics**

	MNGR	INST	DER	KAPPASAR
Mean	0.018079	0.629671	0.020476	12.54764
Median	0.000000	0.672600	0.008200	12.23170
Maximum	0.268000	0.965400	0.704700	18.52070
Minimum	0.000000	0.000000	0.000000	9.127000
Std. Dev.	0.046303	0.234655	0.050078	1.894534
Observations	455	455	455	455

The market capitalization of companies with average value of 12.547 is ranged between 9.127 - 18.520. When the average number of shares owned by managers, commissioners is 1.80%, the managerial ownership (MNGR) is about 0% - 26,8% while the institutional ownership (INST) is between 0% - 96,54% or average of 62,96%. Results also shows that the ownership is concentrated on institutional ownerships both domestic and foreign. The composition of data used in this analysis is based on dummy variables i.e. companies with foreign ownership (FORN), size of company (SIZE), and debt to equity ratio (DER). There are 57 or 63.1% companies with foreign ownership (FORN) while 34 or 36.9% without foreign ownership. Also, there are 49 or 54.1% big companies and 42 or 45.9% small companies. The DER has a highest average ratio of 70.47% in 2007 and lowest at 0.07% in 2006. The average DER of these companies from 2004 to 2008 is 2%.

Classical Assumption Test

Data analysis by *model fixed* effect in general was performed by *Generalized Least Square* (GLS). Then the following tests on the violation of classical assumption are required to evaluate whether the regression results fulfill the criteria of *Best Linier Unbiased Estimator* (BLUE).

1. Multicolinearity Test

Table 4.2 shows the results of multicolinearty test by C*orrelation Matrix*.

Tabel 4.2 Multicolinearity Test

	MNGR	INST	FORN	SIZE	DER
MNGR	1.000000	-0.198611	-0.144277	-0.267585	-0.078460
INST	-0.198611	1.000000	-0.081944	-0.012883	0.148199
FORN	-0.144277	-0.081944	1.000000	-0.001547	0.059493
SIZE	-0.267585	-0.012883	-0.001547	1.000000	-0.050025
DER	-0.078460	0.148199	0.059493	-0.050025	1.000000

The results shows that R^2 value is less that toleration value for the required multicolinearity i.e. 0.80. Hence, the model does not meet the requirements of multicolineary.

2. **Heteroscedasticity Test**

The result of *Heterockedasticity Test* is presented in Table 4.3

Table 4.3 White Heteroskedasticity Test

White Heterocedasticity Test:			
F-statistic	34.70867	Prob. F(8,446)	0.000000
Obs*R-squared	174.5819	Prob. Chi-Square(8)	0.000000

From Table 4.3, the *p-value* from *Obs*R-squared* is approaching zero or less that α (5%), hence; the model does not meet the requirements of heteroscedasticity. Thus, transformation was done by E-views program. GLS (*Generalized Least-Square*) for fixed effect model does not need the treatment to the classical assumption, thus; transformation was performed by E-views program. The GLS (*Generalized Least-Square*) regression can transform beta (β) produced by OLS equation, hence; the assumptions can be fulfiled.

3. **Autocorrelation Test**

The results of autocorrelation test by Breusch-Godfrey Test in the form of estimation output is presented in Table 4.4:

Table 4.4: Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	3.679513	Prob. F(1,449)	0.055719
Obs*R-squared	0.000000	Prob. Chi-Square(1)	1.000000

Sumber : Output Eviews

The table shows that the probability value is 0.055719 which is greater than 0.05; hence the variables are not autocorrelated.

Discussion

Regression Analysis

The best method for regression analysis is the *fixed effect* after *Redundant* and *Hausman* test. Tabel 4.5 shows the estimation using *fixed effect model GLS* and *White Cross Section Covariance* which correlates the company value and share ownership variable and control variable as well as coefficient of each company.

Table 4.5
Results of Pooled Estimation Regression by
Fixed Effect GLS and *White Cross Section Covariance*

Dependent Variable: Kap.pasar				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	11.74633	0.119414	98.36616	0.0000*
MNGR	-3.963517	0.499473	-7.935405	0.0000*
INST	-0.297413	0.085078	-3.495776	0.0005*
FORN	0.164609	0.090433	1.820241	0.0696
SIZE	1.947552	0.031727	61.38426	0.0000*
DER	-4.715433	1.142096	-4.128753	0.0000*
R-squared	0.699178			
Adjusted R-squared	0.619574			
F-statistic	8.783139			
Prob(F-statistic)	0.000000			

* significant pada derajat kepercayaan 5%

The coefficient of determination (adjusted R^2) in Table 4.5 is 0.619574 which shows that 61.96% change of company value is affected by independent variable i.e. managerial, institutional, and foreign ownership, while the rest (38.04%) is affected by other variables. The results presented in Table 4.5 indicate that both control variables (SIZE and DER) influence the value of the company with significance level of 5%. SIZE gives a significant positive effect on the value of the company. This outcome is in agreement with Lee (2008) and Kumar (2004) study. They pointed out that bigger companies tend to increase the economic scale because investors are aiming at high growth rate. As a result, the investors hire competent and skilled managers and apply standardized procedures to achieve better performance. Consequently, this will increase the operational activity of the companies and increase their values. The control variable *leverage* has a coefficient of -4.715433 with *p-value* of 0.0000 (*p-value* < 0.05). The maximum ratio of liability and asset is 1.00 or 100% which means all assets of the company are fully paid by liability. Based on the results of descriptive statistics, the average DER value of these companies is 2%, which means the DER is decreasing from year to year. As a result, manufacturing companies in Indonesia tended to avoid liability and focus on equity as their funds. *Leverage* has a negative effect on company's value, the higher the *leverage,* the lower the value of the company. The finding is in line with Sujoko (2007). The reluctance of investors to invest in companies with greater liability proportion causes the decline of market value of the company.

Theoretical Study and Discussion

Joint Effect of Ownership Structure and Company's Value.

F-statistical value obtained from *Fixed effects model* regression with *White Heteroskedasticity* and *Cross-section Weight* is 8.783139 which is higher than that of F-table with confidence level of 95%, thus; hypothesis H_1 is accepted. It can be concluded that managerial, institutional, and foreign ownership influence the company value. The combined effect of these ownerships and control variable SIZE and DER on the value of company is 0.6992 (69.92%). By controlling the effect of SIZE and DER, the larger the SIZE of company, the larger the value, and the lower the DER, the larger the value of the company. From statistical analysis, 49 big companies and 42 small companies with lower DER ratio i.e. average of 2% per year shows that manufacturing companies in Indonesia are increasingly avoiding debt and focus on equity as a source of funding priority. Outcome of this research shows that managerial, institutional, and foreign ownerships have some control on the value of the company. Ownership structure combines the control power of shareholders and identity of various type of owners of the company. In accordance to the statement made by Kumar (2004), ownership structure can affect the running of the company and consequently of the performance of the company to achieve the goals i.e. to maximize its value.

Partial Effect of Managerial Ownership on Company's value

Regression analysis shows that managerial ownership have negatively significant effect of the company's value with coefficient of -3.964 which indicate that for an increase of 1% of managerial ownership, the company value will decrease as much as 3.964, *cateris paribus.* Increasing managerial ownership have negative effect on market value. The market assume that increase in the proportion of managerial ownership causes the performance and the value of the company be oriented on the manager interest, thus the interest of others will be overlooked. Furthermore, the higher percentage of managerial ownership cause the decision making process to be focused on the interest of the management, not the general interest of the company.

This study shows that the percentage of managerial ownership is only 1.8% and they are dominated by family members. The finding support Claessens *et al.* (2000) statement that if the ownership structure is belong to board of directors or board of trustees, the board will tend to act on their own interest. The increase in managerial ownership has negative effect on the company.

This finding contradict *agency theory* which states that managerial ownership is a control mechanism to cut down *agency problem* because in this theory, the larger portion of managerial ownership put together the interest of owner and manager. Besides, the manager managers experience the direct benefits of the decisions and the loss of the company for wrong decision (Jensen and Meckling,1976). The addition of managerial ownership has the advantage to align management interests with shareholders. Managers are also shareholders will increase the value of the company, thus; their individual gains.

Partial Effect of Institutional Ownership on Company's value

Regression analysis shows that institutional ownership have significantly negative effect on company's value with coefficient of -0.297, which means each 1% increase in institutional ownership, the value of the company decrease by 0.297, *cateris paribus*. The empirical evident explains that institutional ownership is not effective on monitoring the management. This study indicates that institutional ownership has failed in its role as a mechanism of increasing company's value. Manufacturing companies in Indonesia is unique in the sense that the company is, in general, dominated by *institutional holding* which consist of affiliated *holding companies.* Moreover, the share holders are interrelated to each other as family members even with the manager. The study shows that the percentage of institutional ownership is high i.e. 62.96%, thus having dominant share majority control of the company (Berle dan Means (1932) in Sugiarto (2009:37). Nevertheless, they are not independent on each other. This situation causes the control mechanism, as argumented by Jensen & Meckling (1976) in agency theory, be useless. Furthermore, it is predicted that the majority institutional ownership expropriate the right of minority shareholders. This is the typical agency problem in the concentrated share ownership. The situation in Indonesia support this inappropriateness because based on study by Claessens *et al.,* (2000), Indonesia has low level of legal protection on minor shareholders. Institutional holders as major shareholders can make decision based on their own interest. This study also support findings of Arifin (2005) and Claessens *et,al* (1999) that 2/3 of public shares is owned by non financial corporations, which directly or indirectly controlled by family members. When the company sell their share to public, the *go public*, the company founder still have the majority share through limited company. He maintains the share proportion to be able to control the management of the company.

The findings is not in agreement with *agency theory*, in which the institutional ownership has an important role to minimize agency conflict between the manager and share holders. The presence of institutional investor is expected to be an effective monitoring mechanism in management decision making (Jensen dan Meckling, 1976). The larger the proportion of institutional ownership the more efficient the utilization of corporate assets. Institutional ownership also holds incentive to monitor the decision making process in order to increase the company's value.

Partial Effect of Foreign Ownership on Company's value

This study shows that the foreign ownership have an insignificant positive effect on company value. One of the positive effect is that the presence of foreign ownership give access to international capital markets and then, open access to international managerial technology and expertise. However, the foreign ownership does not influence the efficiency of managerial system, thus the performance and the value of the company still be dominated by local investor. Besides, most investors do not assess a company based on the percentage of foreign holders. This is in agreement with research by Kumar (2004), that foreign ownership is identical with good *monitoring* capability but foreign investors focus more on liquidity level and tend to be involved in long term relationship with the company, especially on the restructurization of companies with poor performance. They will opt to withdraw their share rather than monitor the management. The finding is in agreement with study by Chibber & Majumar (1999) which stated that share ownerships by foreign investor will have ignificant effect only if the share is more than 51%.

This finding does not support the study by Setiawan *et al.*, (2006) which shows that foreign ownership have negative effect on the performance of the company. Meanwhile, study by Umar *et al.,* (2004), Chevalier *et al.,* (2006), Greenaway *et al.,* (2009), proof that foreign ownership have positive impact on company's value because foreign holders apply efficient and advanced management which can be expected to enhance the performance. In general, previous published researches agrees that the presence of foreign share holders in a company is expected to increase the company value. The insignificant effect obtained from this study may be due to the fact that foreign ownership involved in the manufacturing companies are not able to put pressure on the management through monitoring process and to encourage companies to work more effectively and efficiently.

Conclusions:

1. Combination of managerial, institutional, and foreign ownerships have significant effect on the value of manufacturing companies registered at Indonesian stock exchange.
2. Partial analysis of the ownership structure shows
   a. Managerial ownership has negative effect on the value of the companies because market assume that manager tend to make decision based on their own interest.
   b. Institutional ownership gives negative effect on the value of the companies due to expropriation by major shareholders on the minority.
   c. Foreign ownership positively influences the values of the companies but the effect is not significant. Foreign ownership supposed to give access to international capital market but the interest of foreign investors does not increase the efficiency of management. Future investors do not evaluate companies based on the percentage of foreign ownership.

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