

# The Influence of Ownership Structure and Corporate Governance to Investment Decision Companies Listed on Indonesian Stock Exchange

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**Abstract:** *This study aims to determine the significance effect of ownership structure, corporate governance to investment decisions manufacture companies listed on the Indonesian stock exchange. Data used in this study is secondary and primary using 40 sample companies manufacturing. The results indicated that the ownership structure, and corporate governance have a positive effect on investment decisions. Positive effect of ownership structure and corporate governance on investment decisions caused by the ownership is still concentrated to the owners and insider holdings.*

**Keywords:** Ownership Structure, Corporate Governance, Investment Decisions

## 1. Introduction

Agency theory explains, that the agency relationship arises when one or more persons (the principal) employs another person (agent) to provide a service and then delegate decision-making authority to the agent (Jensen and Meckling, 1976). As a corporate manager, the manager will be more aware of internal information and corporate prospects than the owners (shareholders).

Fama (1980) argues that the separation of ownership and control can be described as an efficient form of economic organization in the perspective of "a set of contracts". Jensen and Meckling (1976) argue that agency conflicts occur because of the separation of ownership and control of the company, which in turn will affect the value of the company. Shareholding structure of a company consists of shares owned by institutional and managerial shareholdings. Managerial ownership by the relatively small number, but it encourages management to improve company performance. Agency theory is one of the much-debated topic in the finance literature. Many studies have contributed to provide a theoretical and empirical evidence relating to agency theory. There are two hot issues that are often discussed within the framework of agency theory, the structure of ownership and corporate governance influence to create value for the company.

Ownership structure will have different motivations in monitoring and management companies and boards of directors. Ownership structure is believed to have the ability to influence the future course of the company that could affect the company's performance. Ownership structure is a mechanism to reduce the conflict between management and shareholders.

Ross et al. (1977) stated that the greater the proportion of shares in the company, the management tends to try harder for the interests of shareholders other than himself. Managerial stock ownership will help pooling of interests between managers and shareholders, so the manager to feel the direct benefits of the decisions taken and were also bear

the losses as a consequence of making the wrong decision. Garay and Gonzalez (2008) conducted a study to examine the relationship between corporate governance, as measured by the Corporate Governance Index (CGI), and the value of the firm, as measured by the Price to Book Value (P / BV) and Tobin's Q, the companies went public in Venezuela. Garay and Gonzalez The results showed that an increase of 1% in CGI result in an average increase of 11.3% in dividend payouts, 9.9% in the Price to Book Value, and 2.7% in Tobin's q.

This study focused on the manufacturing industry as the manufacturing industry contributed nearly 30 percent of Gross Domestic Product (GDP), manufacturing industries are the main sectors driving growth. Addition to the large share of exports in manufacturing industries, employment in the non-oil manufacturing industry also ranks above that whether improved performance of the manufacturing industry have a significant impact both on exports, employment and the overall economy. Importance of the manufacturing industry should be coupled with better performance. However, based on data from the last few years the manufacturing industry experienced a downturn, even below the rate of economic growth in Indonesia. In 2005 Indonesia's economic growth reached 5.5 percent while growth in the manufacturing industry only grew by 4.6 percent. While economic growth in 2006 reached 6.3 percent, but the manufacturing industry grew by only 4.7 percent. Even in 2009, the manufacturing industry is considered very poor compared with other industry sectors. Manufacturing sector continued to slow until it reaches the lowest point in the third quarter of 2009 with growth of only 3.1 percent (Reuters, January 12, 2010). The purpose of this study was to determine how the effect of ownership structure and corporate governance on investment decisions in companies listed on the Indonesian Capital Market.

## 2. Materials and Methods

The research design used in this study is explanatory Research that describes the symptoms caused by a study. The research was conducted by confirming and testing the

causal relationship between variables is done by testing hypotheses using structural equation. The data used in this study is to use a combination of data time series and cross section or also called Polling data. This data is used to get the value of the variables that will be studied is the effect of ownership structure, corporate governance and investment decisions on the manufacturing companies listed on the Indonesia Stock Exchange (IDX). Population and Sample The population of this research is the manufacturing company Listed in Indonesia Stock Exchange (IDX) during the period 2001-2009. Techniques used in sampling is Simple Random Sampling is done without regard to the strata (levels) in the population members.

### 3. Results and Discussion

Results of the research obtained from statistical testing using ANOVA table obtained F value of 452 771 with probability (sig) = 0.000. Because the sig <0.05, then the decision is rejected H<sub>0</sub> and accept H<sub>a</sub>. this means that the ownership structure and corporate governance jointly influence investment decisions. R-square coefficient of determination or R<sup>2</sup> = 0.717 or 71.70%, while the influence of other variables not included in the model, namely, = 1-0.717 = 0.283 or 28.3% Testing In Individual Sub-Structure-1 Effect of Ownership Structure on Investment Decision Analysis of the relationship between the structure of partial ownership by investing their decision is that the column sig (significant) in appendix 17 table 0.00 Coefficients obtained sig. Because the sig <than 0.05 then H<sub>0</sub> is rejected and H<sub>a</sub> accepted, which means that the ownership structure affect the investment decision. Influence of Corporate Governance on Investment Decision Analysis of the relationship between corporate governance with partial investment decision is that the column sig (significant) in appendix 17. Coefficients obtained sig 0.00. Because the sig <than 0.05 then H<sub>0</sub> is rejected and H<sub>a</sub> accepted, which means that corporate governance affects the investment decision.

Analysis of Effect of Ownership Structure and Implications for Investment Decision Based on the results of the calculation are known, that the influence of the ownership structure (X<sub>1</sub>) for investment decisions (Y<sub>1</sub>) is equal to 0.140 with a probability level of 0.000. This means that the ownership structure (X<sub>1</sub>) is a significant positive effect on investment decisions (Y<sub>1</sub>). From the results of this study indicate that ownership structure where there is managerial ownership and institutional ownership affect corporate investment decisions. Ownership structure has positive influence on investment decisions. Positive effect is caused by the shareholding that is still dominated by insider holding in which there is ownership by the owner of the company and ownership by managers. With the amount of insider ownership holding, then it will continue to add and develop an investment company because that would be a signal that the company is growing.

The results are consistent with Jensen and Meckling (1976) which states that one of the requirements to reduce agency cost is to increase the stock ownership by management in addition to institutional ownership. This suggests that greater ownership by management, then management will tend to work harder because they also are part of the

company's shareholders. The findings of this study support some research done by Moh'd et al. (1998), Roseff (1982).

Analysis and Implications of Corporate Governance Effect to the Investment Decision Based on the survey results revealed that the effect of corporate governance variables (X<sub>2</sub>) for investment decisions (Y<sub>1</sub>) is equal to 0.837 with a probability level of 0.000. This means that corporate governance (X<sub>2</sub>) positive and significant effect on investment decisions (Y<sub>1</sub>). Based on these results, it can be said that the company's investment decisions are influenced by corporate governance. Corporate governance is positive and significant effect on investment decisions. Positive effect is caused by the improvement in the proportion of independent board. Based on the descriptive statistics obtained that during the year 2001 to 2009 the proportion of independent board has increased. In 2001, the proportion of independent board by an average of 28.191 in 2009 increased an average of 30.774. Similarly to audit committee and the board number. The result is reinforced by the results of the interview covered the board of directors, commissioners, and secretary of the company's audit committee. Respondents' answers to the application of corporate governance commitments average high and very high even answer. Thus that, with the implementation of good corporate governance, the company's investment decisions, the better.

The results are consistent with Mitton (2002) found that, the stock market in some East Asian countries had a positive reaction to corporate governance. Similarly Gompers, et.al (2003) found evidence that, purchase investments in companies that apply corporate governance will get a return higher than the company's low corporate governance. The results of this study conflict with those expressed by Baird (2000) that, because one of the economic crisis in Indonesia and also some other Asian countries is due to the poor implementation of good corporate governance (GCG) in almost all the existing companies, both state-owned enterprises (SOEs) and private firms. With poor corporate governance implementation, the level of trust the owners of capital investment declined because they did become unsafe. This course will be followed by the withdrawal of investments that have been planted, while new investors are also reluctant to invest.

### 4. Conclusions and Recommendations

The ownership structure and corporate governance, and a significant positive effect on investment decisions. Positive effect is caused by the shareholding that is still dominated by insider holding in which there is ownership by the owner of the company and ownership by managers. With the amount of insider ownership holding, then it will continue to add and develop an investment company because that would be a signal that the company is growing. Based on the results of the study, almost all of the variables have a positive effect on firm value so the owner of the company (principal), company manager (agent), creditors and potential investors can make as a material consideration in making financial decisions. The need for monitoring of the behavior of the principal agents in the use of debt, as this will have an impact on the company's existence in the future

to come. The use of debt is too big will affect over leverage that would interfere with the company's financial condition in the manufacturing industry. The need for monitoring of the behavior of the principal agents in the use of debt, as this will have an impact on the company's existence in the future to come. The use of debt is too big will affect over leverage that would interfere with the company's financial condition in the manufacturing industry. The need to implement good corporate governance in the manufacturing industry, looks at the results of the analysis indicate that corporate governance positively influence the financial decisions are investment decisions and dividend policy. With improvements in the two financial decisions that will be the signal that the company is growing and protecting minority shareholders. Similarly, the need to pay attention to the use of debt, because the results of the descriptive statistical analysis showed that increasing the use of debt. The need to seek other sources of funding, in addition to using debt

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