CASH HOLDINGS, OWNERSHIP STRUCTURE, CORPORATE GOVERNANCE AND FIRM VALUE

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MASTER OF SCIENCE
UNIVERSITI UTARA MALAYSIA
DECEMBER 2015

CASH HOLDINGS, OWNERSHIP STRUCTURE, CORPORATE GOVERNANCE AND FIRM VALUE

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Thesis Submitted to
School of Economics, Finance, and Banking,
Universiti Utara Malaysia,
in Partial Fulfillment of the Requirement for the Master of Science (Finance)

Pusat Pengajian Ekonomi, Kewangan dan Perbankan
SCHOOL OF ECONOMICS, FINANCE, AND BANKING
Universiti Utara Malaysia

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ABSTRAK

Kajian ini mengkaji hubungan antara pegangan tunai, pemilikan pengurusan, pemilikan keluarga, pemilikan kerajaan, saiz lembaga pengarah, komposisi lembaga pengarah dan prestasi syarikat dengan menggunakan syarikat perkilangan yang disenaraikan di Indonesia sebagai sampel dari tahun 2011 sehingga 2014. Model kesan tetap and model kesan rawak digunakan bagi menganalisis hubungan di antara pembolehubah-pemboleubah. Hasil kajian yang didapati telah menunjukkan bahawa pegangan tunai, pemilikan keluarga, dan pemilikan kerajaan mempunyai hubungan yang negatif dengan nilai syarikat tersebut. Pegangan tunai yang berlebihan adalah satu tanda yang menunjukkan bahawa sesebuah syarikat itu bertindak untuk menyimpan tunai dan tidak membayar dividen dan terdapat kemungkinan dimana tunai tersebut digunakan untuk faedah yang lain dan ia bukan merupakan di dalam lingkungan minat pemegang saham. Hubungan negatif yang ditunjukkan oleh pemilikan keluarga mungkin disebabkan syarikat tidak diuruskan secara professional. Untuk pemilikan kerajaan, hubungan yang negatif mungkin mencadangkan bahawa kerajaan berminat untuk memenuhi agenda sosial daripada memaksimumkan keuntungan. Hubungan yang positif ditunjukkan oleh saiz lembaga pengarah. Mempunyai jumlah lembaga pengarah yang tinggi akan meningkatkan prestasi syarikat. Kajian ini juga menunjukkan hubungan di antara pembolehubah-pembolehubah di papan pembangunan dan papan utama di dalam Bursa Efek Indonesia. Kesan yang lebih signifikan ditunjukkan oleh papan pembangunan berbanding papan utama.

Kata kunci: pegangan tunai, struktur pemilikan, tadbir urus korporat, nilai syarikat, Indonesia

ABSTRACT

This study investigates the relationship between cash holdings, managerial ownership, family ownership, government ownership, board size, board composition and firm performance by taking Indonesian manufacturing publicly listed firms as the sample over the period from 2011 to 2014. Fixed effect model and random effect model are employed to analyse the relationship between those variables. The findings of this study reveal that cash holdings, family ownership, and government ownership are negatively correlated with firm value. The excess cash holdings are a sign that the firm tends to retain the cash rather than pay it via dividends and there is a possibility that the cash is employed for non-pecuniary benefits which is not analogous to the shareholders' interest. The negative relationship shown by family ownership might suggest that the firm is not being managed professionally. For government ownership, the negative relationship might indicate that the government is interested in fulfilling the social agenda rather than maximizing profit. The positive relationship is only exhibited by board size. Having a higher number of board members will increase the performance. This study also presents the relationship of variables among main board and development board in Indonesia Stock Exchange. A more significant impact is perceived by the development board firms rather than main board firms.

Keywords: cash holdings, ownership structure, corporate governance, firm value, Indonesia

ACKNOWLEDGEMENT

First and foremost, I thank to Allah S.W.T. for all the blessings, opportunities, chances, easiness in doing this study that He gives to me, to finish and complete my master level at Universiti Utara Malaysia. It is such a great opportunity having a study here.

I would like to say my honest gratitude to my supervisor Prof. Madya Dr. Rohani Bt Md. Rus who has given her time, guidance, commitment, insight and all the support to me. Those are priceless. Thank you very much Prof.

All my gratitude also comes to all the lecturers who have taught me since I began my study at UUM. Thank you for a lot of insight and knowledge coming from them.

I would like to thank my father, Sulistiawan and my mother, Yama Pratiwi for their supports and prayers. For my brother, Argan, my sister, Salsa, and also my all time supporter who has accompanied me, Puput, thank you for motivating me. You all are the greatest gift I ever had.

Finally, to friends, librarian, SEFB staff, and all entities at UUM for all the cooperation. You all helped me a lot. Thank you very much.

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CHAPTER 1

INTRODUCTION

1.1 Background of the Study

The value of the firm is one of the essential indicators that signify how well the company is doing its business. Firm value, literally, is an economic measure that reflects the market value of the company's whole business (Investopedia.com, 2015). To achieve higher market value, all activities of the firm have to take shareholders' interest into consideration which means the policies that are made by the company have to align with the shareholders' interest to prevent the plummet of the firm value (Ficici & Aybar, 2012). Regarding that case, the amount of cash holdings, ownership structure, and corporate governance issues might play a role in enhancing the firm value due to these variables are very related with the shareholders.

Several studies have shown that the escalation of cash holding has an influence over the firm value. Opler, Pinkowitz, Stulz, and Williamson (1999) claim that the maximum shareholder wealth could be achieved if the cash reserve is at a level that the marginal cost of cash reserve equals the marginal profit of those reserves. Implicitly, cash holdings can have either a poor or a strong impact on the firm value because it influences the liquidity of the firm. The benefit of keeping liquid assets as a reserve means that the firms can use these assets to finance the future project and hence, it can reduce the cost of capital whenever the firms want to raise funds to be invested in a new project. On the contrary, Jensen (1986) exhibits that the cash holdings can bring an agency cost because managers prefer to disgorge the excess

cash with an improper procedure where it might lead to the unlucrative investment. The amount of cash holdings varies based on its size, sector, and other characteristics of the firm (Chudson, 1937). A study in United States performed by Baskin (1987) proves that liquidity is one important element in a competitive market. By holding more cash, the firm's liquidity will increase and affect the firm value indirectly. Firms with a high amount of cash tend to have a greater growth and greater firm value (Boyle & Guthrie, 2003; Mikkelson & Partch, 2003; Opler et al., 1999). However, after examining many firms from developed and developing countries, contradictory results have been found. Firms which retain more cash have a decline firm value, notably if the shareholder protection in a particular country is weak which is more likely to happen in the emerging countries (Harford, 1999; Kalcheva & Lins, 2007). It can be derived that the effect of cash holding to the firm value more or less is controlled by the perception of the shareholder which might cause the conflict between the manager and shareholder. Since the amount of cash and cash equivalent held by Indonesian manufacturing firms have increased by more than thirty percent since 2009, it is imperative to know whether the rising of cash holdings leads to higher firm value. Furthermore, considering that the performance of the company in Indonesia has decreased drastically to the lowest point in March 2015 since 2011, this study tries to investigate whether cash holdings has a relationship with the firm value.

Conflict of interest frequently emerges in determining the policy of the company because the disagreement among the majority shareholder and the manager who runs the company. A research has revealed that managerial ownership which is first being discussed by Berle and Means (1932), has a positive impact on the firm value. Giving the managers some equity stakes is one of the best ways to monitor the firm

activity. By doing this, the manager will tend to focus more on the well-being of the company, where it is analogous to the shareholders' interests. Jensen and Meckling (1976) also exhibit that the increase of managerial or insider ownership can harmonize the interests of managers as the agents and shareholders as the principals. In short, managerial ownership is viewed positively to the firm value (Bos, Pendleton, & Toms, 2011; Fauzi & Locke, 2012; Mueller & Spitz, 2002). A study from Indonesia conducted by Susanti, Rahmawati, and Aryani (2010) expresses that managerial ownership affects positively on the firm value. Yet, the other studies in emerging market which are performed by Wahla, Shah, and Hussain (2012) for Pakistan and Isshaq, Bokpin, and Onumah (2009) for Ghana have discovered that insider ownership provides a negative and insignificant relationship to the firm performance. In addition, empirical evidence in Indonesia regarding the relationship between managerial ownership and firm value is still limited. Other than managerial ownership, family and government ownership are variables that must also be studied considering that it can influence the firm value. The negative relationship between family ownership and firm value can be found in Bertrand and Schoar (2006) and Cronqvist and Nilsson (2003) studies and the positive relation is established by Anderson and Reeb (2003), Kortelainen (2007), and Shyu (2011). Having government ownership is believed to boost the performance and value of the firm (Jiang, Laurenceson, & Tang, 2008; Liao & Young, 2012). At the same time, several studies claim vice versa (Lin, Ma, & Su, 2009; Zeitun & Tian, 2007). This study will investigate the relationship among the ownership structure and the firm value.

Good corporate governance is another factor that affects firm value. The lack of the implementation of corporate governance regulation is one of the main contributors

that lead to the economic crisis (Zhuang, Edwards, Webb, and Capulong, 2000 in Cheung et al., 2014). Various indicators to measure corporate governance have been employed and the contradictive results are debated among the researchers. Adams and Mehran (2011), Gyapong, Monem, and Hu (2014), and Khancel (2007) are among the researchers who state that corporate governance affects the firm value positively. Contrarily, the others such as Kumar and Singh (2013) and Ahern and Dittmar (2011) come across negative relation. Moreover, Coombes and Watson (2000) stress that investors also consider the level of corporate governance in determining the firm that they want to invest in. This might be a reason why the stocks of manufacturing firms in Indonesia are seldom being transacted although the manufacturing firms have a good prospect.

Table 1.1
Percentage of Stock Trading Value

	2010	2011	2012	2013	2014
Finance	16.56%	21.66%	19.06%	19.10%	21.60%
Trade and Services	8.19%	9.71%	15.20%	18.20%	19.30%
Infrastructure	15.29%	12.62%	16.39%	16.20%	15.10%
Property and Real Estate	7.70%	6.03%	10.43%	15.50%	13.80%
Mining	26.96%	24.74%	13.19%	6.80%	7.00%
Basic Industry and Chemicals*	8.30%	6.83%	6.43%	6.70%	6.80%
Consumer Good*	7.19%	5.93%	7.64%	8.50%	6.10%
Miscellaneous*	6.27%	8.30%	8.25%	6.50%	5.60%
Agriculture	3.53%	4.18%	3.39%	2.50%	4.50%
Total	100%	100%	100%	100%	100%

*Included in manufacturing sector
Source: Indonesian Stock Exchange annual report, 2010-2014

The table 1.1 above reveals the percentage of each sector contributed to the total trading value in Indonesia which is obtained from the annual reports of Indonesian Stock Exchange. It can be clearly seen that the contribution of manufacturing sector, which covers basic and chemicals industry, consumer goods industry, and miscellaneous industry, to the stock trading value has declined. President Director

of Indonesian Stock Exchange, Ito Warsito, stressed that some investors did not value their stock fundamentally but those, which was not actively transacted, obtained a good rate by Indonesia's Rating Agency (Bisnis.com, 2015). Considering the importance of corporate governance, then, the manufacturing firms have to focus on the factors that make them more attractive such as improve the transparency to the investor. This circumstance is also coupled by the poor performance of manufacturing firms. Referring to tradingeconomics.com (2015) and Gosta (2015), a survey which is conducted by HSBC, exhibits that the performance of Indonesian manufacturing firms in the first quarter in 2015 has decreased to the lowest level since 2012. Moreover, being the highest growth sector and contributed almost 40% to Indonesian GDP, this sector is expected to expand and to become the main driver for the Indonesian economy. Hence, understanding the three issues above is essential in order to understand the relationship between those variables with firm value.

1.2 Problem Statement

Many companies try to increase the percentage of their current assets in a form of cash in order to ease them to finance an investment easily without relying on loan institution and making them more robust to face the crisis. Yet, there is still inconclusive evidence related to the cash holdings and its relationship to the firm value, especially in emerging countries. One evidence prompts that cash holding negatively affects the firm value (Dittmar, Mahrt-smith, & Servaes, 2003; Harford, 1999; Kalcheva & Lins, 2007; Loncan & Caldeira, 2014). Their studies emphasize that the negative relationship between cash holding and firm value arise because managers tend to invest in unprofitable investment (Harford, 1999). In contrast,

Martínez-Sola, García-Teruel, and Martínez-Solano (2013), Mikkelson and Partch (2003), Opler et al. (1999) suggest that firms with higher cash holding tend to have strong growth which might lead to greater performance. Holding more cash helps the firm to get more financing in a sudden, more return related to the absence of interest payment, and on top of that, the dividend paid to the shareholder will go up with excess cash as well (Opler et al., 1999). Another study such as from Isshaq et al. (1999) has shown an insignificant relationship among those two variables. Thus, based on the inconclusive evidence shown by previous studies and considering the importance of having excess cash, it is important to investigate the relationship between cash holding and firm value especially in an emerging market such as Indonesia.

It is commonly known that several big firms are not run by the shareholders themselves. The shareholders elect managers to manage the firm. To align the interest between them, shares are offered to the agent as a facilitator so that monitoring process of the firm by the principal could be run smoothly and this is called managerial ownership (Jensen and Meckling, 1976). This view is supported by Fauzi and Locke (2012) and Mueller and Spitz (2012) who find a positive impact, the greater managerial ownership the better the performance of the firm. Conversely, studies by Demsetz and Villalonga (2001) in U.S. and by Wahla et al. (2012) in Pakistan claim conflicting result. Wahla et al. (2012) stress that positive relationship would only last up to small particular level and then the firm value will significantly decrease due to the managers tend to play safe in terms of their investment. This justification is supported by some research that managerial ownership negatively correlated to the leverage (Demsetz and Villalonga, 2001). Hence, it is necessary to find out the effect of managerial ownership on the corporate value.

Family ownership means that the major shareholders have a family relation with the owner of the company. Anderson and Reeb (2003), Kortelainen (2007), Matinez and Stohr (2005) and Shyu (2011) find that there is a positive relationship between the family shares owned and firm value. The family understands the business well and tends to have more concern in scrutinizing the company performance more frequently than the other major shareholder (Anderson & Reeb, 2003). However, the possibility that family ownership leads to the decrease of firm value cannot be denied as described by Bertrand and Schoar (2006), Cronqvist and Nilsson (2003) and Miller, Breton-Miller, Lester and Cannella (2007). In family-owned firms, there is a possibility of nepotism and some owners are willing to sacrifice the profit for non-pecuniary benefits (Organisasi.org, 2008; Tribunnews.com, 2013). Their results present that family ownership has a negative relationship with firm value. Considering the inconclusive findings, it is important to investigate the relationship between family ownership and firm value.

Another type of ownership structure is government ownership which is the amount of shares that is owned by the government. Government's intervention is good as it helps to increase the firm value (Jiang et al., 2008; Liao & Young, 2012). The government may use their power to get more advantages such as having higher bargaining position in negotiation and obtaining low-interest financing. However, some other researchers discover that both variables have a negative relation as pointed by Lin et al., (2009), Qi, Wu, and Zhang (2000), and Zeitun and Tian (2007). These results are based on the target of the firm, for instance, the main purpose of government-owned firms are not for profit, but more on the social agenda such as to reduce the unemployment.

The relationship between board size and firm value is also an empirical issue. Adams and Mehran (2011), Dalton, Daily, Johnson, and Ellstrand (1999), and Isshaq et al. (2009) establish a positive relationship to the firm value. The higher size of the board may provide a better decision. Yet, Yermack (1996), Eisenberg, Sundgren, and Wells (1998), and Kumar and Singh (2013) find the result reversely. Their results find that the size of the board has a negative influence on firm value due to the inefficiency that might occur as a result of having higher number of board members. The small and efficient number of boards may facilitate more narrowly focus firms' planning and reduce the personal interest of each director.

Another measure of corporate governance is board composition. Positive and significant interrelation has been found by Carter et al. (2003), Gyapong et al., (2014), and Puthenpurackal and Upadhyay (2013). Aside from having a broader insight, gender diversity in the board will help to prevent a gender's social issue and discrimination. Conversely, Adams and Ferreira (2009), Ahern and Dittmar (2011), and Blackburn, Iles, and Shrader (1997) discover that it has a negative relationship. There is a few kind of task that women are somewhat incapable of doing especially for a company that is related with a man's job (Bilimoria & Piderit, 1994). Even, in developed countries, which have an equal level of education between men and women, there is still a problem with the capability of women. Therefore, there is a need to study the relationship between board composition and firm value, especially in emerging countries.

Besides those literature, based on Indonesian Corporate Governance Roadmap which is published by Financial Authority Service or "Otoritas Jasa Keuangan" in 2014, the market capitalization of listed companies in Indonesia is still low aggregately

compared to the other South East Asia countries such as Singapore and Malaysia in terms of amount. Since market capitalization is highly related to the market value of the firm, it implies that there is a less involvement by the society in the capital market and this lead to the decrease of the firm value. Hence, this study is expected to provide the variables that have a significant impact to the market value.

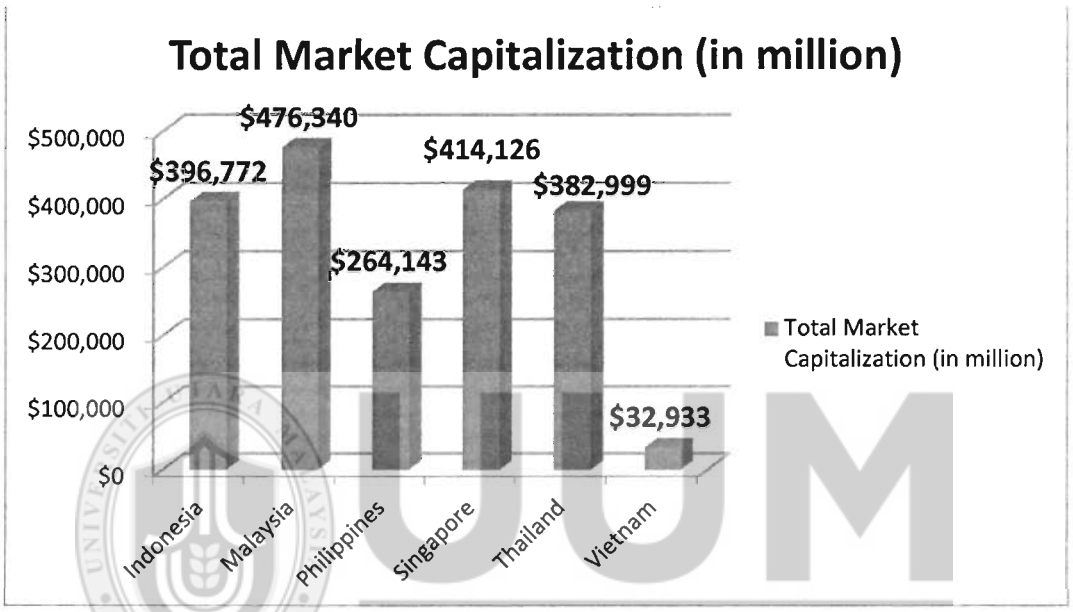

Figure 1.1
Comparison of Total Market Capitalization Among ASEAN Countries
Source: Indonesian Corporate Governance Roadmap, 2014

The lower market capitalization in Indonesia, the unclear evidence between cash holding, ownership structure, corporate governance, and firm value, and the lack of research in South East Asia, especially in Indonesia has prompted the research in this area.

1.3 Research Questions

Based on the problem statement that has been derived above, the research questions are as follows:

1. Is there any relationship between cash holdings and firm value?

2. Is there any relationship between managerial ownership and firm value?
3. Is there any relationship between family ownership and firm value?
4. Is there any relationship between government ownership and firm value?
5. Is there any relationship between board size and firm value?
6. Is there any relationship between board composition and firm value?

1.4 Research Objectives

The main objective of this research is to identify whether the particular variables have an impact to the firm value. Specifically, the objectives of this research are as follows:

1. To examine the relationship between cash holdings and firm value.
2. To examine the relationship between managerial ownership and firm value.
3. To examine the relationship between family ownership and firm value.
4. To examine the relationship between government ownership and firm value.
5. To examine the relationship between board size and firm value.
6. To examine the relationship between board composition and firm value.

1.5 Significance of the Study

This study is expected to benefit the firms at the most related to their market value by giving a clear relationship between cash holdings, ownership structure, corporate governance, and firm value. This study emphasizes that firm and the stakeholders must be aware on the amount of cash and cash equivalent held by the company due to the decrease of the market value of the company. Higher cash holdings will lead to the decline of firm value due to the bigger possibility that the cash is invested into

the unlucrative project. On top of that, based on shareholders' point of view, that amount of cash is supposed to be paid to them as a dividend rather than retained to be invested in other investment's project. So that, with this study, firm and its stakeholder will know where the firm value is going to move due to the existence of excess cash holdings.

The output of this study also can be used to determine the relation between ownership structure and firm value. This is very useful due to having shares owned by member of the family and government can lead to the decline of firm value.

As an issue that is frequently discussed, corporate governance factors have to be considered by the company. It can reflect whether the company has sufficient number of board to take care its business line and cares with a social and environmental issue that is engaged with the company's business. By placing a woman on the board can be defined that company cares to the social issue and has open-minded thinking which will cause the increase of firm value.

1.6 Scope and Limitations of the Study

In this study, only manufacturing firms are used as the sample. According to Indonesian Stock Exchange, it consists of three sectors namely consumer goods industry, basic and chemicals industry and miscellaneous industry. This study will also explain the impact of having excess cash (as a proxy of cash holdings), managerial ownership, government ownership, family ownership (as a proxy of ownership structure), and board size and board composition to represent the corporate governance.

1.7 Organisation of the Study

The study is arranged into five chapters. Chapter 1 explains the introduction and the reason why this study is conducted. It discusses the problem statement, research questions, research objectives, significance of the study and the limitation of the study. Chapter 2 reveals the underlying theory and previous literature related to the study. Chapter 3 describes the framework of the research and the methodology which is applied in this research. Chapter 4 discusses the result obtained from this study. Chapter 5 or the last chapter presents the conclusion that contains several statements which support the result and some recommendation for future research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

As this main purpose of this study is to investigate the relation between cash holdings, ownership structure, corporate governance, and firm value, this chapter presents the underlying theories related to the variable and the previous empirical evidences that have been studied before either in emerging countries or in developed countries. The empirical evidence part describes the author, data, method, and findings of several studies that have been done.

2.2 The Underlying Theories

2.2.1 Trade-off Theory

Begin with Modigliani and Miller (1958) statement, who claim that financing does not matter in perfect and frictionless capital markets, trade-off theory is established. Trade-off theory is originated from the idea of what type of financing, either debt or equity, that company prefers to use by considering the benefits and costs among them. The firm tries to seek the optimal debt levels by balancing the deductible tax against the costs of financial distress. The main purpose of this theory is to explain that company is usually financed by debt partly and equity partly in a particular amount to get the optimum financing. According to Myers (2001), the firm will be leveraging up to a particular level where the cost of tax shield will be equal to the cost of financial distress or bankruptcy costs. Literally, the intention of trade-off theory is to show the advantages and disadvantages of two types financing so that

the firm is able to maximize its gain. Eventually, the firm will obtain the optimum capital structure by increasing debt and having a tax shield to get more benefit.

Burkhanova et al. (2012) review the dynamic trade-off theory which is the modification of static trade-off theory. They assume that costs of capital adjustment are high so that the firm cannot suddenly change its capital structure. They reveal that there is an optimal range where the firm can adjust its leverage up to the top boundary of the range. Therefore, the capital structure of the firm can be adjusted to in a shorter period of time to get the optimum financing.

2.2.2 Agency Theory

Agency theory is a fundamental theory that is frequently used to describe the relationship between an agent and the principal of the company. This theory is established by Jensen and Meckling (1976). The agency theory reveals the concept of agency costs, where these costs emerged because of the interest divergent between the agent and the principal. They interpreted the agency costs as the total of:

1. The monitoring expenditures by the principal
2. The bonding expenditures by the agent
3. The residual loss

In financial management, the main purpose of the firm is to maximize the shareholder wealth, but practically, the policy taken by the firm deviates from the shareholders' interest because there is a tendency of the firm to get the benefit as much as possible based on the management's interest. Therefore, giving shares to the managers is expected to avoid a decision which may reduce the firm value or activity that accentuate the interest of managers themselves.

In many cases, there are some quandary moment experienced by the agents to choose the right decision for the company and shareholders. For instance, when the company involves in a new prospective and lucrative project where on the other side, it rubs against a social issue. For the agents, it is seen as an opportunity to increase the performance and profit of the company. Running this project would bring the company growing and can compete with its competitor. From shareholders' point of view, it is a reckless step and the involvement of the company in that project may cause the image of the company drop, which will reduce the firm value later on.

2.2.3 Pecking Order Theory

Donaldson (1961) is the first author who introduces the concept of pecking order theory until it is modified by Myers and Majluf (1984). The theory postulates that firms prefer to use sources of financing according to the cost of financing, which is from the less costly up to the greatest. Thus, in sequence, internal financing is utilized first, then debt is used up to a particular level before the equity financing is issued. This theory also explains that the cost of financing will affect inversely to the profitability of the firm.

This theory is supported by the average fall in price when the firms announce to issue new stock, especially the undervalued shares (Asquith and Mullins, 1986) because frequently, investors are not able to value precisely the new securities issued. When the investors believe that it is due to overvalued assets-in-place, there would be massive stock transfers from existing shareholders to new shareholders. Therefore, asymmetric information favors the rise of debt than issuing equity considering that debt reflects the board belief toward the company business.

Pecking order theory is also closely related to the implementation of corporate governance. Pecking order theory will fail and adverse selection will be applied if the symmetric information, such as information about the debt risk, between the managers and the outside shareholders, exists (Halov & Heider, 2004; Frank & Goyal, 2007). For instance, when the outside shareholders possess same information about the maximum level of debt financing and the reason of issuing new equity, the managers may issue more stock to get a financing which has fewer restrictions and avoids the credit rating policy, especially for medium to small firms.

2.3 Previous Empirical Research

2.3.1 Cash Holdings and Firm Value

Numerous studies have been conducted to prove the relationship between cash holdings and firm value. However, many contradictory results have appeared and make the connection among the two variables becomes biased. There are two views that are related to cash holdings. First, those who assert that amount of cash owned by the firm has a negative relation with the firm value and second the others who find a positive relationship. In a study about the oil industry, Jensen (1986) stresses that by having more free cash flow, instead of paying that cash to the shareholder as a dividend, there is a tendency that the managers try to expropriate a company through merger and acquisition activity which mostly lead to the unlucrative investment. On the other side, having a big amount of cash gives the managers an ability to make an investment decision and managers do not have to rely to the other external institution for funding.

A study executed by Harford (1999) explores 19 sectors which consist of 1,821 observations categorised as cash-rich firm and 21,675 observations which are put in

another category from 1972 to 1974. The criteria of the cash-rich firm are the firm that its cash holding must deviate by more than 1.5 times from the cash holding in the previous year. The objective of his study is to test the behaviour of cash-rich firms in doing its acquisition using a regression model. He shows that the likelihood of an acquisition is greater for the firm with high cash reserve than the low cash reserve firm. In addition, cash-rich firms are associated with agency problems because most acquisitions done by cash-rich firms tend to reduce the firm value.

This result is confirmed by Kalcheva and Lins (2007) by utilizing close price from Worldscope database for the year-end in 1996. The final sample consisted of 5,102 companies from 31 countries. Tobin's Q is used as a measure of firm value. Their study finds that when management control, as a proxy for managerial and family ownership, increases, cash holdings influences significantly and negatively with firm value. It is very plausible remembering that higher level of cash tends to be used for the managers' interest.

By employing unbalanced panel data regressions toward non-financial firms listed in Sao Paulo Stock Exchange for 10 years from 2002 to 2012, Loncan and Caldeira (2014) research the relationship between cash holdings and firm value. In a quadratic form, cash holdings are related positively with firm value up to a particular threshold level and then, from that level, the replenishment of cash will decrease the firm value. The decline of firm value is perceived further to the firm which is financially constrained.

Another study that support the evidence of an inverse relationship between cash holdings and firm value is conducted by Faulkender and Wang (2006). The sample is publicly listed firms in U.S. during the period from 1972 to 2001. This study

attempts to estimate the marginal value of cash holdings. The result indicates that marginal value of cash is valued negatively with the cash holdings, which means that the value of excess cash will decline more if it is retained by the company compared to pay that excess cash via dividends.

In Japan, non-financial listed firms are investigated by Luo and Hachiya (2005) and the results are analogous with agency theory. The sample consists of 15,382 observations from 1989 to 2002. It is documented that cash holdings lead to the agency problem and eventually it reduces the firm value, especially the firms who are closely related to the bank.

However, analogous to the Pecking Order Theory, high cash holding will have positive effect to the firm value. Using cross-section and time-series data during the period from 1952 to 1994, Opler et al. (1999) find that public U.S. firms which grow rapidly tend to have high ratios of cash to non-cash assets. This study also emphasizes that firms which are doing well tend to accumulate cash without having concern on how to maximize the shareholder wealth. Implicitly, firm's performance is greater at the time when the firm is having more cash.

Mikkelson and Partch (2003), who take 89 publicly traded firms in the United States that keep twenty-five percent of total assets in cash, assert that high cash reserve drives higher ratios of the market to book value of company's assets and these companies have greater performance. The essence here is that by keeping more cash reserve, the liquidity of the firm will be better and the firms are able to finance profitable investment. They also declare that firms with high cash tend to take over a higher level of investment which eventually lead to high market-to-book ratio.

Emphasized by Martínez-Sola, García-Teruel, and Martínez-Solano (2013), the effect of cash holdings to the firm value is positive and significant. Yet, the result describes a concave relationship where the positive impact occurs if the level of cash holdings at the optimal level. The deviations, either over or below, from that level will considerably decrease the firm value.

Amidst of studies that result significant impact between the higher excess cash, the existence of agency problem and the reduction of the firm value, Bates, Kahle, and Stulz (2009) attempt to investigate the rationale of why, nowadays, U.S. listed companies hold more excess cash during the period 1980-2004. The sample consists of non-financial firms that have positive assets and positive sales. Then, the result shows that there is no relationship between holding too much cash and the existence of agency problem. Furthermore, Isshaq et al. (2009) find that the relationship between the value of the firm and cash holdings from firms listed in Ghana Stock Exchange have a positive but insignificant relation. It can be clearly concluded that the relationship among the two variables was not strong.

2.3.2 Managerial Ownership and Firm Value

A related set of previous literature has discussed the affiliation among the two variables, ownership structure, and firm value. Managerial ownership sufficiently takes effect to the growth and future of the company in terms of determining lucrative investment and finally, it affects the firm value. The first author is Berle and Means (1932) who bring this issue up. They express that giving the managers some equity stakes is one of the best ways to monitor the firm activity. By doing this, the manager will focus on maximizing the shareholder wealth, analogous to the shareholders' interests.

Afterward, the theory of ownership structure which is proposed by Jensen and Meckling (1976) arise. The result is similar with the previous study that asserts that the increase of managerial or insider ownership can harmonize the interests of managers as the agents and shareholders as the principals.

Nowadays, the researchers have discussed various types of ownership like managerial ownership, foreign ownership, state ownership which provide different results. Among all these types of ownership, managerial ownership is one that has received the most attention because of the existence of the agency conflict between shareholder (principal) and manager (agent) (Hu & Izumida, 2009).

Jensen and Meckling (1976) explain the impact of managerial ownership on corporate performance and discuss the ideal proportion of share that must be owned by the manager to reach the optimal firm value. They reveal that each firm has its particular optimal level of managerial ownership depending on the firm characteristic. Yet, an adequate amount of managerial ownership can sufficiently simplify the interests of shareholder and manager to increase the value of the firm which is shareholder wealth.

Mueller and Spitz (2002) study the effect of managerial ownership on (by using unbalanced panel data and applying fixed-effect regressions) 1300 Germany's companies during the period 1997 to 2000. For a small up to medium private firms, they come across a positive effect of manager shares owned to firm performance. However, the positive effect will still exist if the percentage of managers' shares are not more than 80 percent. Above that number, managerial ownership will be valued negatively on the firm value.

The positive and significant relationship between managerial ownership and corporate performance is also clarified by Fauzi and Locke (2012). By taking 79 firms from six different sectors in New Zealand Stock Exchange and employing a non-linear model namely the Generalized Linear Models (GLM), they exhibit that managerial ownership has a non-linear relationship to the firm's performance measured by Tobin's Q and return on asset (ROA).

However, several studies show different results. In Pakistan, Wahla et al. (2012) investigate sixty-one non-financial firms listed at Karachi Stock Exchange from 2008 to 2010 (183 observations) by employing common effect model. They discover that managerial ownership affects the company's performance negatively.

The indirect relation between ownership structure and firm value is set by Yulianto, Suhadak, Darminto, and Handayani (2014). They put dividend policy and capital structure as an intervening variable. By using Partial Least Square, they discover that ownership structure has a negative impact to the dividend policy and capital structure. Then, dividend policy and capital structure have a positive influence with the firm value. Referring to these relationships amongst those variables, it can be concluded that inverse relationship exists between ownership structure and firm value.

Demsetz and Villalonga (2001) use 511 firms from 1976 to 1980 and utilize ordinary least square (OLS). They investigate the relationship between managerial ownership and Tobin's Q. Managerial ownership is treated as an endogenous variable. An insignificant relationship between managerial ownership and firm performance is discovered in their study.

2.3.3 Family Ownership and Firm Value

It has been commonly recognized that several companies are owned and managed structurally by the family. Several previous literature has explored the impact of this organization structure with the firm performance and firm value. In the United States, family ownership is associated with the less profitable company because the company tends to forgo maximum profit and choose the non-pecuniary benefits which are not analogous with the shareholder interest (Bertrand and Schoar, 2006; Demsetz, 1983; Fama & Jensen, 1983; Shleifer & Vishny, 1997).

Miller et al. (2007) empirically investigate whether family firms perform more superior rather than non-family firms. Taking U.S. public companies, they confirm that either large or small U.S. family firms do not have outstanding performance compared to market valuation.

The trade-off circumstance of having a large proportion of family shares is explained by James (1999). The unfair acts and less efficient and less effective operations are easily found in family firms which eventually may reduce the firm value such as giving more expense to the family members and the inadequate capability of the young family.

Another study that discusses the relationship among family ownership and firm value is conducted by Cronqvist and Nilsson (2003). They estimate that the agency costs appear due to the existence of family shareholders. Employing 309 publicly listed Swedish firms over the period from 1991 to 1997 for balanced panel data, they reveal that the existence of family shareholders has a large influence to decrease the firm value which is measured by Tobin's q.

However, the discussions revealed above are not consistent. Few studies result in opposite directions. Anderson and Reeb (2003) attempt to study the performance of family and nonfamily owned firms using S&P500 firms in 1992 as the sample. The firm performance is represented by Tobin's Q and ROA and they use univariate and multivariate analysis. The results of this study indicate that family firms have better performance or at least as well as than nonfamily firms. The justification of this study is that family has the similar culture to run the company and wholly understands the business operations.

In 2005, 175 Chilean listed firms are taken as a sample in Matinez and Stohr (2005) study. By using multiple regression models, they investigate the influence of family ownership with these three proxies of performance namely Tobin's Q, ROA and ROE. All findings are similar which state that family ownership leads to better performance.

Using univariate and multivariate analysis, Kortelainen (2007) investigates the characteristic of Norway family owned firms. He divides the sample into two namely random sample and main industry sample. Random sample shows that the performance of family and nonfamily firms is not different significantly. Yet, the result of main industry sample exhibits that the better performance is obtained by the family firms.

Shyu (2011) investigates Taiwanese firms over the period from 2002 to 2006, excluding the financial and insurance institutions, and uses 2SLS as the method. ROA and Tobin's Q are used as a measure of the firm performance. The finding discloses that family ownership is able to increase the firm performance and another indication reveals that family's wealth is closely related to the firm performance.

2.3.4 Government Ownership and Firm Value

There are different views relating to the relationship between government ownership and firm value. Having a large proportion of government ownership can be an advantage for the firm such as utilizing government power in negotiating the project. While, no government ownership will avoid a particular party (from the government) to extract more benefit from the company for his own personal interest. Considering that the involvement of the government highly takes effect in each company activity, there has been many kinds of literature about the impact of government shares ownership to the firm value which obtain different result.

Shleifer and Vishny (1994) conduct a study that depicts how government ownership triggering the bribes and the abuse of power. The firm value and firm profitability might be damaged because of this issue.

Lin et al. (2009) study the effect of state ownership to the firm efficiency toward Chinese publicly listed companies. By taking 461 firms from Shanghai and Shenzen Stock Exchanges as a sample which most of them are owned privately, the result shows that the negative relationship exists between the state ownership and firm efficiency.

Another study from China conducted by Qi et al., (2000) emphasize the existence of a relationship between government ownership and firm performance proxied by ROE and ROA. The observations consist of 774 firm-year over the period from 1991 to 1996. By using regression model, they discover that proportion of government shares owned by the company affect negatively with the firm value.

A study from Jordan, by Zeitun and Tian (2007), look at 59 public listed firms during the period of 1989-2002. They attempt to investigate the relationship between government shares ownership and firm's performance and the probability of default. They find that government shares ownership is significantly and negatively related with the ROE as a proxy of firm's performance.

Jiang et al., (2008) study the effect of government-owned share reduction with the performance of the company. By taking cross-sectional data of 794 over 821 Chinese publicly listed companies at year-end 2004. The conclusion of this study is that the government ownership is positively related with the firm performance. This is due to that even though non-government investors are growing and stable, their participation and contribution to the company's business is still less compared to a government institution.

Another positive evidence from China is shown by Liao and Young (2012). Using panel data on 514 listed firms during the period 1999-2004, they discover that government ownership affects positively to the firm value which is contrary to the political interference. It is indicated by this study that government shareholder commitment about privatization can add the value of the firm.

2.3.5 Board Size and Firm Value

Board size has been commonly used to represent the corporate governance. Distinct results about the relationship between board size and firm value have been revealed in some studies. Dalton et al. (1999) conduct a research on 131 samples by utilizing Meta-Analysis. In this study, board size and firm performance are detected to be positively and significantly related. Isshaq et al. (2009), who study Ghana listed companies during the period of 2001-2007 and apply Seemingly Unrelated

Regression (SUR) method come across that the number of the board is able to provide a positive influence to the firm value significantly.

The positive relation between a number of board and firm performance is also obtained by Adams and Mehran (2011). They examine 32 public banking firms which are amongst 200 largest in term of the book value of assets from 1997-1999. The performance measure used in this study is a market to book value of assets and they put capital volatility and return on assets (ROA) as a control variable.

By referring to the theory and previous literature, Khancel (2007) expresses that effective corporate governance, which is proxied by monitoring capability, is supposed to be highly related to the firm value. Hence, by employing 624 sample size of U.S. firms within 1994 to 2003 and using the ranking methodology, He comes across that the corporate governance measures (board of directors, board committees, and audit committee) are able to provide a positive influence to the monitoring capability. Then, it can affect indirectly to the higher firm value. Moreover, the study suggests that four member in a board is the optimal number to increase the firm value.

Other studies show the negative impact to the firm value. For instance, Yermack (1996) uses least-squares regression analysis on a cross-sectional data and analyse large U.S. Industrial firms from 1984 to 1991. His study claims that the higher the number of board decreases the firm value.

Eisenberg et al. (1998) find a similar result to the sample of small up to middle size Finnish firms. The sample consists of 785 well-condition firms and 94 bankrupt firms. By using OLS regression models, the negative and significant relationship is found between board size and firm value.

Kumar and Singh (2013) analyse the board size impact on the firm value in India. They discover negative impact between the number of board and firm value for a sample of 176 firms. It is also found that large firms tend to have a less negative impact rather than the small one. In addition, the negative impact is less obvious for large companies.

2.3.6 Board Composition and Firm Value

Women taking a role on the board is being a massive incident around the world due to the increase of women that have more capability and leadership to handle a firm. Several studies have examined the advantage of having them on the board, for instance, Maznevski (1994). He declares the benefit of that which is individual skill and experience will give a broader perspective in solving a problem and determining a decision. Another advantage also has been revealed by Stephenson (2004). Possessing gender diversity on the board will reflect that the firm treats its employee fairly and that thing will attract talented resource to join the firm.

Carter et al. (2003) study the interrelation between board composition and firm value. Board composition is defined as the proportion of women and race minorities specifically Asians, Africans, and Hispanics. Using 637 of Fortune 1000 firms, women and minorities on board are predicted to have the positive and significant influence to the firm value by controlling for size, industry, and other corporate governance measurements.

Gyapong et al. (2014) is in agreement with the result of Carter et al.'s study (2003). The sample consists of 245 South African Listed companies from 2008 to 2013. The regression model used is random effects regression model. The conclusion of this

study is that when the firm has more than two women on the boards, the firm value will rise.

More explanation about the relationship between female on the board and firm value is obtained in Puthenpurackal and Upadhyay (2013) study. By using OLS and controlling some firm characteristics, they argue that the existence of women directors in S&P firms will lead to the higher performance. Nonetheless, independent women directors will drive higher performance than insider women directors due to the monitoring that is conducted more intensively. The more knowledge and expertise owned by them will provide more positive influence to the firm performance.

Inversely, Blackburn et al. (1997) identify the correlation between the number of female in the board and firm's performance which returns on equity (ROE) and return on assets (ROA) for approximately 200 samples over 500 Fortune firms. The results conclude that for the big firms, high level of ROE and ROA are not associated with the higher percentages of women in the board. This study explains that the plausible reason is the tasks which are given to the women are not done well.

Ahern and Dittmar (2011) utilize Norway firms as the sample, which has applied the rule that 40% of Norway public listed firms' directors are supposed to be female. By using Tobin's Q as the dependent variable, the result displays that when the firm that has already had at least one female on the board, the decrease of its stock price tends to be higher rather than the firm that does not have women director. This is due to that Norway's firms are forced to place women on the board even if they are a lack of experience.

Adams and Ferreira (2009) discover that the impact of adding women on board leads to a more intensive firm monitoring, which might eventually lead to the worse performance. However, the finding is insignificant. Their study uses OLS and fixed effects regressions. They emphasize again that when the firms are having good governance, women on board is seemed to result in a negative impact to the firm value due to the likelihood of conducting more monitoring.

2.3.7 Firm Size and Firm Value

The size of firm really takes a role in influencing some financial ratio's variable such as return on assets (ROA), return on equity (ROE), market to book ratio, earnings per share, financial distress, growth ratio, etc (Rajan and Zingales, 1998). Many studies use firm size as a variable that can group between large companies and small companies. Referring to some previous studies, total assets is one measure that is commonly used other than market capitalization and total sales. According to Indonesia Stock Exchange, total assets is one of the differentiators that separates the main board and development board.

Begins with Opler et al. (1999), their study examines the US publicly traded firms over the period of 1952-1994. They argue that large firms tend to have greater access to the capital market and better credit ratings than a small firm. It means that size of the firm affects positively to the firm value.

Mikkelson and Partch (2003) investigate the effect of firm size, proxied by total assets, to the firm value by employing 89 US listed firms as a sample. Analogous with the previous finding, they also find that larger firm has the higher market to book value. They emphasize that larger firms definitely have a longer history than

the smaller one, therefore, the brand image and reputability of the large firm is better.

Another study, conducted by Horioka and Terada-Hagiwara (2013), attempts to research the linkage among the size of the firm, cash holdings, and firm value. They use panel data from 11 Asian countries which are taken from Bureau Van Dijk Oriana Database for 10-year observations from 2002 to 2011. Firms consist of Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Thailand, and Vietnam. They divide the characteristic into two namely developed economies which are Australia, Hong Kong, Japan, New Zealand, and Singapore and the rests are included as developing economies. The main result obtains that cash holdings have a positive impact on firm value. In the developed economies, the result contrasts with the previous which indicates that small firms tend to have more stock of cash so that the firm value is higher than the large one. In this case, the market value of small firm grows faster than the large firm. In the developing economies, the similar result also appears but the average of cash holdings declines with firm size because of the financial crisis reduces cash flow of the companies.

Several kinds of literature have exhibited clearly that the studies that discuss directly the connection among firm size and firm value are very limited. Some of them relate the size of firm to the cash holdings first and the results vary each country. By taking those into consideration, this research attempts to identify the impact of total assets to the firm value.

CHAPTER 3

METHODOLOGY

3.1 Introduction

This chapter discusses the research framework, hypotheses development for each variable, variable's definition and its measurement, data and sample, and method or data analysis that are used in this study.

3.2 Research Framework

As mentioned in the subchapter of variable measurement, there is one dependent variable, six independent variables, and one control variable used in this study. Market to book value ratio is the dependent variable and it is a measure of firm value. The independent variables consist of one financial variables which is cash holdings to total assets (C/TA), three ownership variables namely the percentage of managerial ownership (MOwns), family ownership (FamOwns) and government ownership (GovOwns), and two corporate governance variables which are represented by the number of board of director (BSize), as a measurement for board size and the percentage of female in the board (BComp), as a measurement for board composition. Total assets (LogTA) is employed as a control variable to represent the size of the firm.

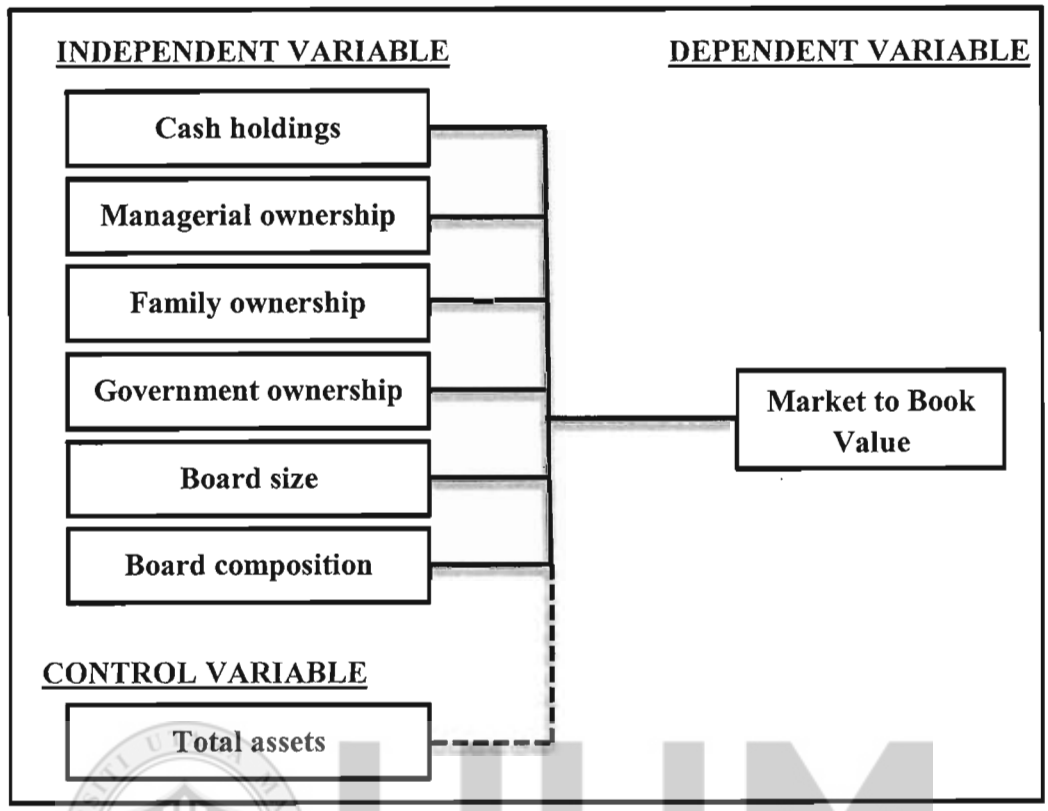

Figure 3.1
Research Framework

Market to Book Value Ratio is symbolized as M/B. Cash holdings is cash and cash equivalent per total assets which is represented by C/TA. Managerial ownership is the percentage of managerial ownership symbolized by MOwns. Family ownership is proxied by FamOwns by using dummy variable. Government ownership is represented by GovOwns estimated from the percentage of government shares-owned. Number of board of director is represented by BSize. The percentage of women on the board is represented by BComp. Total assets is estimated by natural logarithm of total assets and symbolized by LogTA.

3.3 Hypotheses Development

As discussed earlier in this study, several sets of previous literature have revealed the relationship between firm value and certain independent variables such as cash holdings, managerial ownership, government ownership, family ownership, board size, and board composition.

3.3.1 Cash Holdings and Firm Value

Numerous studies have been conducted to prove the relationship between cash holdings and firm value and two views appear. The first view is those who claim that cash holdings affect firm value negatively as explained by Faulkender and Wang (2006), Harford (1999), Kalcheva and Lins (2007), Loncan and Caldeira (2014), and Luo and Hachiya (2005). However, another view arises, where it is analogous to the Pecking Order Theory, which stress that high cash holding will have a positive effect on the firm value. Bates, Kahle, and Stulz (2009), Martínez-Sola, García-Teruel, and Martínez-Solano (2013), Mikkelson and Partch (2003) and Opler et al. (1999) are the authors who emphasize the positive relationship between cash holdings and firm value. Because of these inconclusive evidence, hypothesis 1 is written as:

H1: There is a relationship between cash holdings and firm value.

3.3.2 Managerial Ownership and Firm Value

Regarding the relationship between managerial ownership and firm value, Berle and Means (1932), Fauzi and Locke (2012), Jensen and Meckling (1976), and Mueller and Spitz (2002) agree with the concept of agency theory which state that managerial ownership helps to align the interest between principal and agent. In that case, positive relation exists between managerial ownership and firm value. In contrast, Wahla et al. (2012) and Yulianto et al. (2014) come across that managerial ownership is negatively related with the firm value. Those mixed findings result the hypothesis as follow:

H2: There is a relationship between managerial ownership and firm value.

3.3.3 Family Ownership and Firm Value

Family ownership is believed as one indicator that might be able to improve the company's performance or at least keep the performance stable because it is assumed that family's culture can handle bad situation. This statement is supported by several studies exhibited by Anderson and Reeb (2003), Kortelainen (2007), Matinez and Stohr (2005), and Shyu (2011) who find a positive and significant relationship between family ownership and firm value. However, the tendency of family ownership lead to the decrease of firm value cannot be denied as stated by Demsetz (1983), Fama and Jensen (1983), and Shleifer and Vishny (1997). Bertrand and Schoar (2006), Cronqvist and Nilsson (2003), and Miller et al. (2007) also conduct studies that result in a negative relationship between family ownership and firm value. Considering that contradictive justification and result, the hypothesis is recorded as:

H3: There is a relationship between family ownership and firm value.

3.3.4 Government Ownership and Firm Value

Many studies have been done to investigate the association between government ownership and firm value. The results vary between developed countries and developing countries. The negative relationship is found in China (Lin et al., 2002; and Qi et al., 2000) and in Jordan (Zeitun & Tian, 2007). However, another viewpoint argues that government can be a breakthrough to solve the company's problem, hence the government ownership will reflect a positive relationship with the firm value. Studies from Jiang et al. (2008) and Liao and Young (2012) emphasize a positive relation among both variables. Therefore, the hypothesis is as follows:

H4: There is a relationship between government ownership and firm value

3.3.5 Board Size and Firm Value

Previous literatures have revealed the importance of a number of the board to the firm value. The positive and significant relation among them is exhibited by Adams & Mehran (2011), Dalton et al. (1999), Isshaq et al. (2009), and Khancel (2007). Yet, the negative relationship emerges in studies conducted by Eisenberg et al. (1998), Kumar and Singh (2013), and Yermack (1996). This inconclusive evidence lead to the hypothesis that is:

H5: There is a relationship between board size and firm value.

3.3.6 Board Composition and Firm Value

Many kinds of literature find that placing a woman as the board of director does bring a broader perspective in terms of solving a company's problem. This point of view is shared by Maznevski (1994) and Stephenson (2004). Furthermore, studies from Carter et al. (2003), Gyapong et al. (2014) and Puthenpurackal and Upadhyay (2013) discover a positive relationship between board composition and firm value. On the contrary, Adams and Ferreira (2009), Ahern and Dittmar (2011), and Blackburn et al. (1997) claim that board composition is negatively related with firm value. These contradictory findings result in a hypothesis as follows:

H6: There is a relationship between board composition and firm value.

3.4 Operational Definition and Measurement of Variable

Two types of variables are used in this study namely the dependent variable and the independent variable. The dependent variable is a variable whose value is affected

by the other variable, whilst independent variable is a variable that affects the dependent variable.

This study uses firm value as the dependent variable. According to Mikkelson and Partch (2003) and Loncan and Caldeira (2014), the measure of firm value is estimated by the market value of assets over book value of assets or called Market to Book ratio (M/B). Market value is obtained by multiplying the stock price and the amount of shares outstanding at a particular time, whereas book value is the difference between total assets and total liabilities figured from the financial statement.

The level of firm cash holdings, ownership structure, and corporate governance are the independent variables used in previous study. In this study, the ratio of cash and cash equivalent to total assets is used to represent the cash holdings (Opler et al., 1999; Mikkelson & Partch, 2003; Martinez-Sola, et al., 2013; Loncan & Caldeira, 2014).

Ownership structure will refer to three types of ownership, which are managerial ownership, family ownership, and government ownership. The proportion of managerial ownership towards all shares issued will denote the ownership structure of the firm as figured by Mueller and Spitz (2002), Isshaq et al. (2009), and Fauzi and Locke (2012). The second type is family ownership namely the amount of shares that is owned by a family who has a relationship with the owner of the company (Anderson & Reeb, 2003). Then, government ownership represents the amount of shares possessed by the government or state institution.

Corporate governance variables used in the study are the number of board of directors (Eisenberg et al., 1998; Kumar & Singh, 2013) and the percentage of

female on the board as a proxy of board composition (Carter et al., 2003; Blackburn et al., 1997). All the definition and measurement of variables is summarized in table 3.1 below.

Table 3.1
Definition and Measurement of Variable

Variable	Symbol	Definition	Measurement
Market to book ratio	M/B	Ratio of market value to book value of the company	Market value of equity over book value of equity
Cash holdings	C/TA	Total amount of cash and cash equivalent	Cash holdings over total assets
Total Assets	LogTA	Amount of total assets	Natural Logarithm of total assets
Managerial Ownership	MOwns	Shares owned by managers (directors or commissioners)	Percentage of shares owned by the managers
Family Ownership	FamOwns	Shares owned by family who builds the company	Dummy variable, 1 if the percentage of shares owned by the family is more than 10%, otherwise 0
Government Ownership	GovOwns	Shares owned by government or state institution	Percentage of shares owned by the government
Board Size	BSize	Number of board directors	Number of board directors
Board Composition	BComp	Composition of the board (can be measured based on gender, race, outsider, etc.)	Percentage of female on the board

3.5 Data Collection and Sample Selection

This study utilizes secondary data which is yearly data collected from the year 2011 to 2014. Financial ratios data such as market to book ratio and the amount of cash holdings are obtained from DataStream and corporate governance data are acquired from the annual report. This study employs purposive sampling to obtain balanced panel data. The data elimination is conducted by following these two steps namely:

1. Data are not available so that it cannot cater for balanced panel data.
2. Data have a negative market to book ratio.

This study uses all Indonesian manufacturing firms listed on the main board and the development board of Indonesia Stock Exchange. According to idx.co.id (2015), the differences between main board and development board are as follow:

Table 3.2
The Comparison Between Main Board and Development Board

Main Board	Development Board
The firm has operated and conducted the core business activity at least 36 months in order.	The firm has operated and conducted the core business activity at least 12 months in order.
The annual report has been audited for the last 3 years and the last interim annual report (if any) obtained unqualified opinion.	The annual report has been audited for the last one year and the last interim annual report (if any) obtained unqualified opinion.
Based on the last annual report, the firm has net tangible assets at least Rp100,000,000.	Based on the last annual report, the firm has net tangible assets at least Rp5,000,000.
Number of shares which is owned by the minority shareholders is at least 100,000,000 shares or 35% out of total capital deposited.	Number of shares which is owned by the minority shareholders is at least 50,000,000 shares or 35% out of total capital deposited.
The number of shareholder that has an account as Stock Exchange Member is at least 1,000.	The number of shareholder that has an account as Stock Exchange Member is at least 500.

Total number of firms on the main board is estimated 55 firms and development board is 68. After conducting the sample selection with the two steps revealed above, hence, the final sample used in this study is 104 companies in total with 416 firm-year observations.

Table 3.3
Sample Selection

Description	Main Board	Development Board	Total Firm
Manufacturing firms on the main board	55	68	123
Manufacturing firms which have available data from 2011-2014	53	60	113
Manufacturing firms which have positive market to book ratio from 2011-2014	50	54	104
Total observation (final sample)	200	216	416

3.6 Technique of Data Analysis

3.6.1 Pearson Correlation

Pearson correlation is a tool to measure the linear correlation between two variables. This tool is employed to obtain the correlation whether they correlate positively and negatively and how much the impact each other. Besides that, it is as an initial predictor whether there is a probability of multicollinearity. If two or more variables have a strong positive relationship, it is a warning signal of multicollinearity. The formula of Pearson's correlation coefficient is given below (Mukaka, 2012).

$$\frac{\sum_{i=1}^{n}(x_i - x)\ (y_i - y)}{\sqrt{[\sum_{i=1}^{n}(x_i - \bar{x})]\ [\sum_{i=1}^{n}(y_i - \bar{y}]}}$$

The value generated by Pearson correlation is at a distance of 1 and -1. 1 means that the variables have a perfect positive correlation, otherwise, -1 shows perfect negative correlation. In addition, there is a rule of thumb in interpreting the size of correlation between two variables which is presented in the table below.

Table 3.4
Size of Correlation and The Interpretation

Size of Correlation	Interpretation
.90 to 1.00 (-.90 to -1.00)	Perfect positive (negative) correlation
.70 to .90 (-.70 to -.90)	Strong positive (negative) correlation
.50 to .70 (-.50 to -.70)	Moderate positive (negative) correlation
.30 to .50 (-.30 to -.50)	Weak positive (negative) correlation
.00 to .30 (-.00 to -.30)	Negligible correlation

3.6.2 Classical Assumption Test

The criterion of classical assumption test has to be fulfilled before OLS is conducted. According to Gujarati (2004), the linear regression model must not deviate from BLUE assumption which are as follows:

1. Best
2. Linear
3. Unbiased
4. Estimator.

In order to cater all the criterion above, there is a set of several tests that have to be done namely normality test, multicollinearity test, heteroskedasticity test and autocorrelation test. However, in this study, the only multicollinearity that will be conducted because the other tests are assumed to not exist due to the type of data used namely panel data.

Multicollinearity is a phenomenon in which two or more predictor variables in a multiple regression models are highly correlated, meaning that one can be linearly predicted from the others. Thus, multicollinearity test is used to test whether one independent variable has a correlation to the other independent variables. Multicollinearity usually occurs if there is a high correlation between each

independent variable. Variance Inflation Factor (VIF) will be used to test the existence of multicollinearity.

3.6.3 Variance Inflation Factor (VIF)

VIF is conducted to test whether each independent variable are having multicollinearity problem that is having a correlation (mostly moderate or strong correlation) between them which may result in the non-existence of coefficient in the regression model (Neter, Wasserman, & Kutner, 1983). Multicollinearity problem exists if the value of VIF is more than 10.

VIF can be conducted by using financial modeling tools like E-Views, Microsoft Excel, SPSS, etc. Assumed that there are 3 variables, which is X1, X2, and X3, and the procedure is as follows below.

1. Regress the X1 toward the X2 and X3. The model would be like this.

$$X1 = \beta_0 + \beta_1 X2 + \beta_2 X3 + e$$

2. Do that repetitively for the other variables, X2 and X3.
3. Calculate the R^2 for every independent variable by referring to the model above.
4. VIF for X1 would be estimated from the R^2_1 of each variable and so on.

$$VIF_i = 1 / (1 - R^2_i)$$

3.7 Hypotheses Testing

According to the hypotheses aforementioned above, the model is then written as:

$$\mathbf{FirmValue_t} = \beta_0 + \beta_1\ \mathbf{C/TA_t} + \beta_2\ \mathbf{MOwns_t} + \beta_3\ \mathbf{FamOwns_t} + \beta_4\ \mathbf{GovOwns_t} + \beta_5\ \mathbf{BSize_t} + \beta_6\ \mathbf{BComp_t} + \beta_7\ \mathbf{LogTA} + \mu_{it}$$

This study employs regression model to obtain the relationship between the dependent variable and independent variables. Since the concept of agency theory officially published by Jensen and Meckling (1976), many researchers have attempted to investigate the relationship between firm value as the dependent variable and financial ratios and corporate governance measures as the independent variables. Most of them utilize OLS (Black, Jang, & Kim., 2006; Dittmar et al., 2003; Fauzi & Locke, 2012; Kalcheva & Lins, 2007; Loncan & Caldeira, 2014; Uno & Kamiyama, 2010). However, based on Ajija, Sari, Setianto, and Primanti (2011), there are three models that can be utilized to estimate panel data regression which are as follow:

1. Pooled least square or common effect model, a method which is able to estimate panel data regression.
2. Fixed effect model, a method which is able to estimate panel data regression by utilizing dummy variable.
3. Random effect model, a method which is able to estimate panel data regression by employing standard error.

A set of the test is conducted in order to identify the most appropriate model for panel data. This set of test consists of three tests namely the Hausman test, the likelihood test, and Lagrange multiplier (LM) test (Brooks, 2008). The procedure to select the most appropriate method is explained as follow:

1. Hausman test assumes that there is no correlation between unobservable individual effects and the regressor. This approach is conducted to identify whether random effect model is better than fixed effect model by looking at its P-value. The hypothesis of Hausman test is mentioned below.

H0: Random effect

H1: Fixed effect

If the p-value is significant (p-value < 5%) or Chi-Square estimate > Chi-Square table, then, reject the null hypothesis which means fixed effect model is more appropriate to be used as the regression method.

2. The second approach is the likelihood ratio or called redundant fixed effect. This test is done to choose either the fixed effect model or the common effect model to be used in the regression. Basically, fixed effect becomes an alternative way for common effect because it assumes that the intercept and slope in the regression model are constant in terms of section (country, company, area, etc) and time (time series data).

   H0: Common effect

   H1: Fixed effect

   If the p-value is significant (P-value < 5%) or F estimate > F table, then, rejects the null hypothesis which means fixed effect model is more appropriate to be used as regression method.

3. The last test is called LM test. The purpose of this test is to decide whether common effect model or random effect model as the most suitable model for this study (Widarjono, 2007).

   H0: Common effect

   H1: Random effect

   If the p-value is significant (P-value < 5%) or F estimate > F table, then, rejects the null hypothesis which means random effect model is more appropriate to be used as regression method.

After conducting all the test and obtained the most appropriate model, the result will be interpreted by looking at the value of coefficient determination (R^2) and t-statistics.

3.7.1 Coefficient Determination

Coefficient determination (R^2), is used to measure how big the independent variables can explain the dependent variable. The coefficient determination value ranges from 0 to 1. The closer the R^2 to 1 shows that the model can represent the research problem because it can explain the variation in the dependent variable.

The coefficient determination value has a tendency to be bigger if the independent variables and total data observation also bigger. Therefore, adjusted R^2 is used to dismiss the bias which appears as the result.

3.7.2 T-Statistic Test

The t-statistic test is used to test the influence of the independent variables to the dependent variables partially. The t-statistic test is conducted by hypothesis testing:

H_0 = Independent variables do not have a significant influence to the dependent variable.

H_1 = Independent variables have a significant influence to the dependent variable.

CHAPTER 4

EMPIRICAL RESULTS AND DISCUSSION

4.1 Introduction

In this chapter, the descriptive statistics, correlation among variables, and findings of the study are presented. This chapter aims to answer the problems and questions revealed in the first chapter of this study whether the relationship among the variables exists.

4.2 Descriptive Analysis

Descriptive statistics is used to depict the overall general descriptive of the data. Table 4.1 below presents the descriptive statistics for the three groups' classification which consist of all companies, development board, and main board.

Table 4.1
Descriptive Statistics

	Mean	Std. Dev.	Max	Min
Panel A: All Companies				
M/B	1.6642	1.0398	4.50	0.08
C/TA	0.1478	0.1254	0.51	0.00
MOwns	0.0265	0.0849	0.70	0.00
FamOwns	0.2187	0.4139	1.00	0.00
GovOwns	0.0301	0.1424	0.90	0.00
BSize	4.9111	1.8677	9.00	2.00
BComp	0.1527	0.1222	0.50	0.00
LogTA	21.3508	1.4569	25.99	18.04
Panel B: Development Board				
M/B	1.5178	0.8646	3.49	0.08
C/TA	0.1281	0.1196	0.46	0.00
MOwns	0.0256	0.0637	0.29	0.00
FamOwns	0.2176	0.4136	1.00	0.00
GovOwns	0.0060	0.0253	0.13	0.00
BSize	4.5370	1.5961	8.00	2.00
BComp	0.1383	0.1198	0.33	0.00
LogTA	21.1243	1.3188	24.24	18.38
Panel C: Main Board				
M/B	1.8223	1.1827	4.50	0.18
C/TA	0.1691	0.1283	0.51	0.01
MOwns	0.0276	0.1032	0.70	0.00
FamOwns	0.2200	0.4153	1.00	0.00
GovOwns	0.0560	0.2007	0.90	0.00
BSize	5.3150	2.0510	9.00	2.00
BComp	0.1684	0.1231	0.50	0.00
LogTA	21.5953	1.5594	25.99	18.04

*,**,*** significant at 10 percent, 5 percent, and 1 percent levels. Market to book ratio (M/B), cash and cash equivalent to total assets (C/TA), proportion of managerial ownership (MOwns), family-owned shares more than 10% (FamOwns), proportion of government ownership (GovOwns), number of board size (BSize), proportion of women on board (BComp), natural logarithm of total assets (LogTA).

According to the table 4.1, the average of market to book ratio is 1.6642 which can be concluded that manufacturing firms are valued more than their book value by the market respectively. Compared to Martínez-Sola et al. (2013) study which analyse the US industrial firms, market to book ratio of Indonesian manufacturing firms is lower than the US which is 2.7. Yet, Indonesia have a better ratio than manufacturing listed companies in Canada which is 1.562 (Gill & Shah, 2012). This is analogous considering that the reputation of Indonesian firms is not highly

reputable as the US firms which have a long track record. C/TA proxies the measure of cash holdings which is estimated by cash and cash equivalent to total assets. It is known that the average cash to total assets of Indonesian manufacturing firms is roughly 0.1478. This average of cash holdings is larger than a study conducted in Bangladesh by Islam (2012). The average of shares owned by the managers or agents is at a lower level which is only 0.0265. Kumar (2004) discloses the higher percentage of managerial ownership in India which is 0.1729 and as well as Palia and Lichtenberg (1999) who reveal that the mean of managerial ownership in U.S. is around 0.1373. Half of the manufacturing firms in Indonesia do not own by managers where only 62 out of 416 companies have managers hold more than 5% of total outstanding shares. This result also presents that the percentage of manager's shares for main board is slightly higher than development board, in contrast with the study conducted by Yulianto et al. (2014). The mean for family ownership is 0.2187 which is below the Western European countries (0.2378) and Denmark (0.2735) as revealed in García, Familiar and Salamanca (2008) and Kholmurodova (2009) respectively. Shares owned by the government is 0.0301 for manufacturing firms in Indonesia as only a few companies are fully-owned by the government. Compared to some previous studies in China and Malaysia, Indonesia has a much lower proportion of government shares which is approximately 0.176 for China (Yu, 2013) and 0.1429 for Malaysia (Razak, Ahmad, & Aliahmed, 2007). Listed manufacturing firms in Indonesia are largely run by the private party. The average number of board of director for Indonesian manufacturing firm is 4.9111 which is far below the average board size of U.S. industrial firms which reaches up to 12.25 (Yermack, 1996). The higher number of board member really depends on the scale, complexity, and national characteristics of the business (Dorgerconsulting.com, 2011; Guest,

2009). Therefore, the main board have more number of the board member compared to the development board due to the size of the firm's business. Board composition represents the proportion of women on the board. Indonesian manufacturing firms have 15% women on the board on average.

4.3 Pearson's Correlation

Pearson correlation is utilized to identify the relationship among independent variables. The results are condensed in table 4.2 below.

Table 4.2
Pearson Correlation

	M/B	C/TA	LogTA	MOwns	FamOwns	GovOwns	BSize	BComp
Panel A: All Companies								
M/B	1.00							
C/TA	0.03	1.00						
LogTA	0.42	-0.23	1.00					
MOwns	-0.2	0.22	-0.21	1.00				
FamOwns	-0.15	0.11	-0.13	0.38	1.00			
GovOwns	-0.04	0.03	0.05	-0.06	-0.09	1.00		
BSize	0.39	0.11	0.53	-0.11	0.01	0.07	1.00	
BComp	0.17	0.08	0.03	-0.12	0.09	-0.01	0.06	1.00
Panel B: Development Board								
M/B	1.00							
C/TA	0.09	1.00						
LogTA	0.20	-0.31	1.00					
MOwns	-0.25	0.19	-0.27	1.00				
FamOwns	-0.21	0.10	-0.16	0.67	1.00			
GovOwns	0.25	-0.04	0.16	-0.14	-0.12	1.00		
BSize	0.15	0.07	0.31	0.08	0.21	0.1	1.00	
BComp	0.31	0.11	0.13	-0.03	0.04	-0.03	0.04	1.00
Panel C: Main Board								
M/B	1.00							
C/TA	-0.05	1.00						
LogTA	0.54	-0.22	1.00					
MOwns	-0.18	0.24	-0.18	1.00				
FamOwns	-0.13	0.24	-0.15	0.41	1.00			
GovOwns	-0.08	-0.01	0.06	-0.07	-0.15	1.00		
BSize	0.50	0.08	0.67	-0.21	-0.11	0.05	1.00	
BComp	0.04	-0.01	-0.1	-0.18	0.16	-0.04	0.04	1.00

Table 4.2 presents the correlation among the variables. For all companies, only board size and total assets has positive and moderate correlation, the rests are classified as weak correlation and negligible correlation. For main board and development board,

the results show that there are no strong correlation among the variables. It can be clearly seen that all correlations value are ranging from -0.31 to 0.67 which suggests that there is no variable that has strong and perfect (either positive or negative) correlation among the variables. The conclusion from this is that multicollinearity did not exist. VIF is conducted to verify the existence of multicollinearity among the independent variables which is presented on table 4.3 below.

Table 4.3
Variance Inflation Factor

	VIF
Panel A: All Companies	
C/TA	1.2000
LogTA	1.6174
MOwns	1.2821
FamOwns	1.2140
GovOwns	1.0172
BSize	1.5404
BComp	1.0483
Panel B: Development Board	
C/TA	1.2127
LogTA	1.5274
MOwns	1.3200
FamOwns	1.2082
GovOwns	1.1386
BSize	1.2299
BComp	1.0511
Panel C: Main Board	
C/TA	1.2892
LogTA	2.1729
MOwns	1.3840
FamOwns	1.3358
GovOwns	1.0261
BSize	2.1315
BComp	1.1415

If the VIF value is more than 10, it means that multicollinearity exists. Referring to the table 4.3, it shows that there is no multicollinearity among the independent variables because all VIF values is less than 10.

4.4 Discussion of Findings

In order to understand the influence of the independent variables on the dependent variable, OLS analysis is carried out. As revealed in chapter 3, Hausman test is conducted to ensure which type of analysis is more suitable between random effect and fixed effect and likelihood ratio is conducted to decide which one is more appropriate between fixed effect and common effect. The result is as follow:

Table 4.4
Hausman Test, Likelihood Ratio, and LM Test

	Test Summary	Test Statistic	Probability
Hausman Test	All Companies	15.5892	0.0291
	Development Board	16.2752	0.0227
	Main Board	2.7564	0.8387
Likelihood Ratio	All Companies	24.0549	0.0000
	Development Board	27.8057	0.0000
	Main Board	-	-
LM Test	Main Board	207.1533	0.0000

It can be clearly seen that there is a dissimilar result on the sample tested. According to the table 4.4, all companies and development board sample indicate that fixed effect model is the most appropriate to be employed in regressing the data. Meanwhile, the result of main board sample shows that it is better to use random effect model. Considering that case, this study also presents the result of common effect model as a comparison for all group classification.

Table 4.5
Regression Results (Common Effect)

Variable	Coefficient	T-Statistics	Prob.
Panel A: All Companies			
C/TA	0.8550	2.2258***	0.0266
MOwns	-1.0177	1.7358*	0.0834
FamOwns	-0.2966	-2.5339**	0.0117
GovOwns	-0.6700	-2.1514**	0.0320
BSize	0.1157	3.9584***	0.0001
BComp	1.2164	3.3028***	0.0010
LogTA	0.2114	5.5078***	0.0000
Adjusted R^2	0.2578		
F-Statistics	21.60***		0.0000
Panel B: Development Board			
C/TA	0.8561	1.7535*	0.0810
MOwns	-2.9650	-3.0993***	0.0022
FamOwns	-0.2609	-1.8509*	0.0656
GovOwns	-2.1198	-0.9480	0.3442
BSize	0.0819	2.2226**	0.0273
BComp	2.0129	4.4362***	0.0000
LogTA	0.0418	0.8411	0.4013
Adjusted R^2	0.1908		
F-Statistics	8.24***		0.0000
Panel C: Main Board			
C/TA	0.4273	0.7030	0.4829
MOwns	-0.4734	-0.6049	0.5460
FamOwns	-0.2065	-1.0805	0.2813
GovOwns	-0.7502	-2.1655**	0.0316
BSize	0.1263	2.5848**	0.0105
BComp	0.6540	1.0981	0.2735
LogTA	0.3203	4.6579***	0.0000
Adjusted R^2	0.3293		
F-Statistics	14.96***		0.0000

*,**,*** significant at 10 percent, 5 percent, and 1 percent levels respectively.

Table 4.5 shows that all variables significantly affect the firm value for all companies. However, different results appear after separating the main board firm and development board. Development board shows that five variables are significant which are cash holdings, managerial ownership, family ownership, board size, and board composition, while only government ownership, board size and total assets are significant in the main board. For each group classification (all companies, development board and main board), the firm value can be explained simultaneously

by the independent variables and the regression model in an amount 25.78%, 19.08% and 32.93% respectively.

Table 4.6
Regression Results (Fixed Effect and Random Effect)

	Variable	Coefficient	T-Statistics	Prob.
Fixed Effect	Panel A: All Companies			
	C/TA	-0.8866	-1.6593*	0.0981
	MOwns	-0.1082	-0.1365	0.8915
	FamOwns	-0.4448	-1.7007*	0.0900
	GovOwns	-16.4536	-2.8590***	0.0045
	BSize	0.0757	1.9127*	0.0567
	BComp	0.3854	1.1421	0.2543
	LogTA	0.0698	0.7753	0.4388
	Adjusted R^2	0.8912		
	F-Statistics	31.90***		0.0000
Fixed Effect	Panel B: Development Board			
	C/TA	-1.8487	-3.0424***	0.0028
	MOwns	-0.2590	-0.3297	0.7420
	FamOwns	-0.3537	-1.6591*	0.0991
	GovOwns	-15.4268	-2.9951***	0.0032
	BSize	0.0616	1.2540	0.2117
	BComp	1.0105	2.6227***	0.0096
	LogTA	-0.1423	-1.5158	0.1316
	Adjusted R^2	0.8967		
	F-Statistics	32.09***		0.0000
Random Effect	Panel C: Main Board			
	C/TA	0.3286	0.4613	0.6451
	MOwns	-0.5051	-0.4608	0.6455
	FamOwns	-0.1459	-0.4101	0.6822
	GovOwns	-0.7961	-1.1528	0.2504
	BSize	0.1017	2.0857**	0.0383
	BComp	-0.1241	-0.2440	0.8075
	LogTA	0.3524	4.1094***	0.0001
	Adjusted R^2	0.1266		
	F-Statistics	5.12***		0.0000

*,**,*** significant at 10 percent, 5 percent, and 1 percent levels respectively.

Table 4.6 points that only four variables significantly affect the firm value namely cash holdings, family ownership, government ownership and board size. However, the results between three-group classifications are not perfectly similar.

According to the table 4.5, the adjusted R^2 for all companies, main board and development board show that all independent variables are able to influence the dependent variable. The adjusted R^2 for all companies is in the amount of 0.8912 or 89.12%.

T-Statistics denotes the impact of each independent variable to the dependent variable partially and the coefficient resulted from this test is utilized as the basis of forming a regression model. Based on table 4.6, results for each group tested are dissimilar enough.

For all companies sample, the fixed effect model in table 4.6 shows that four variables are indicated to have a significant relationship with the firm value. Cash holdings are significantly and negatively affect the firm value with a p-value less than 10% and the coefficient is -0.8866. This result is analogous with the agency theory and the investor interest toward the leveraging. By having a lot of cash, the performance of the company in Indonesia tends to be lower. Furthermore, the shareholder protection in Indonesia is still poor and the possibility of doing something unethical such as fraud is higher than the developed countries (Dittmar et al., 2003). Family ownership has a negative and significant correlation with the firm value. In Indonesia, the level of nepotism is quite high and this influence the performance of family-owned firm due to the firm might not be managed professionally (Bertrand and Schoar, 2006; Organisasi.org, 2008; Tribunnews.com, 2013). This finding is in agreement with family firms survey in Indonesia conducted by Price Waterhouse Cooper or PWC (2014) which states that the biggest problem that Indonesian firms are facing is to make sure that the firms are professionally managed and able to adapt to the global economic changes. Government ownership

is detected to be significant at 1% level and is negatively correlated to firm value. Zeitun and Tian (2007) stress that the focus of government-owned firms is not merely to maximize the profit and performance of the firm, but government-owned companies are tightly engaged with a social purpose. The government may have some social interest that would prejudice the company. The board size is significantly and positively correlated with performance measured by the market to book ratio. Having a higher number of board members helps to align and assist the shareholders' interest (Isshaq et al., 2009). The remaining variables which are managerial ownership and board composition have an insignificant relationship with firm value. The finding of managerial ownership is analogous with Demsetz and Villalonga (2001) and Wiranata and Nugrahanti (2013). The absence of managerial ownership influence is due to the very low fraction of managerial shares in manufacturing company in Indonesia which is only 2.56% on average. This low shares proportion is not sufficient to maximize the manager performance and it is classified as minority shares where they are not able to actively participate in making a company's decision (Christiawan & Tarigan, 2007). For board composition, the result is consistent with Adams and Ferreira (2009) and Chen, Leung, and Evans (2015) which exhibits insignificant relationship. They do believe that by having women on the board will bring more innovation and unique idea but it is not certain whether it can increase the performance and firm value.

Table 4.6 also exhibits that the results generated by main board and development board are diverse using random effect model. The results from the main board show that total assets and board size have significant and positive relationship with firm value. Total assets is a sign that bigger company tends to own higher market value. This is in line with the results from the descriptive statistics that the market value of

main board are higher than development board considering that main board is more reputable and sturdy as a firm. On the other hand, utilizing the fixed effect regression, results from the development board reveal that cash holdings, family ownership, government ownership and board composition play an important role in the performance of the firm. Cash held by the company is such a crucial factor for development board considering that the access to raise financing is more difficult than main board. Yet, it shows a negative relationship due to the tendency of the firms to invest in the unprofitable project. The family ownership and government ownership significantly indicate negative relationship where the coefficients are -0.3537 and -15.4268 respectively. This suggests that the development board is easily being intervened by the government considering that the company in development board is a small company and being managed professionally.

CHAPTER 5

CONCLUSION

5.1 Introduction

This chapter discusses the summary of findings, implications of the research, and recommendation for future research.

5.2 Summary of Findings

This study complements by Isshaq et al. (2009) study which investigated the impact of cash holdings, ownership structure, and corporate governance measures to the firm value in Ghana Stock Exchange. It also attempts to complement the study conducted by Yulianto et al. (2014) which examine the relation among ownership structure, capital structure, corporate governance, dividend policy, and firm value in Indonesia. By combining and referring to several previous literature, this study examines the relationship among cash holdings, the size of the firm, ownership structure (managerial, family, and government), corporate governance (board size and board composition), and firm value in the manufacturing sector in Indonesia. The period for this study is from 2011 to 2014.

The results indicate that for all companies, only four variables have a significant relationship with the firm value namely cash holdings, family ownership, government ownership, and board size while the other two variables namely managerial ownership and board composition are less conclusive. Cash holdings are negatively correlated with the firm value. A higher proportion of cash and cash equivalent is presumed to lead to a lower firm value due to the firm might use that cash for unlucrative project rather than giving the cash to the shareholders as a

dividend. The impact of family ownership is negative because most of family ownership in Indonesia is not professionally managed, hence, firm value goes down especially during the regeneration or transition to the next generation. As James (1999) claims that several factors may reduce the firm value of the family firm. For instance, employing family members rather than a market-supplied employee and the willingness to accept something that will a negative effect on the family business and wealth. The result of government ownership is negative with firm value. In Indonesia, a firm that has high state-owned shares are controlled and scrutinized by the government. In that case, there is a tendency that some of the officials who is in charge will try to put their personal interest into the firm. Another variable that is significant is board size which is positively related with firm value. As the enlargement of company's business, the needs of having more number of the board is getting important to cover all the task.

5.3 Recommendations for Future Research

Considering that this study are merely focused for public listed manufacturing firms in Indonesia, the model of this study can be employed to investigate the determinant factors that provide a significant impact with the firm value in all company's sector in Indonesia. On top of that, the other variables like leverage and shareholder's protection can also be considered regarding the unethical manner that might happen in Indonesia.

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