

THE IMPACT OF OWNERSHIP STRUCTURE ON THE INDICATOR OF FINANCIAL DISTRESS IN INDONESIAN COMPANIES

ANNITHER

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ABSTRACT

The increase in bankruptcy cases and delaying debt repayment by 16.43 percent during the year of 2015 to 2017 reinforced the importance of having good corporate governance to avoid this issue. This study aims to delve into the effect of ownership structures on the risk of financial distress in 421 companies (except financial institutions) in the period from 2012 to 2017. The types of ownership that are being examined are Institutional Ownership, Insider Ownership, Government Ownership, and Foreign Ownership. This study uses OLS Driscoll-Kraay standard error panel data regression. The results of this study shows that Institutional Ownership has a positive relationship to financial distress which is caused by the tendency of Institutional investors to conduct passive monitoring. Inversely, foreign ownership and government ownership have been proven to have a negative relationship with the risk of financial distress. This was caused by the capability of the foreign investors to do better-monitoring activities and maintain the ultimate shareholder's company in their home country. Furthermore, the presence of merah putih shares allows the government to have absolute voting power. This research intends to provide new business perspectives to companies, investors, regulators, creditors, and other stakeholders for economic decision-making purposes.

Keywords: financial distress, institutional ownership, government ownership, foreign ownership, insiders ownership

Peningkatan perkara kepailitan dan penundaan kewajiban pembayaran utang sebesar 16.43 persen sepanjang tahun 2015-2017 menyadarkan kembali pentingnya tata kelola yang baik untuk menghindari hal tersebut. Penelitian ini mempelajari pengaruh struktur kepemilikan terhadap risiko kesulitan keuangan di perusahaan terhadap 421 perusahaan (kecuali lembaga keuangan) pada tahun 2012-2017. Jenis-jenis kepemilikan yang diteliti adalah kepemilikan institusional, kepemilikan manajerial, kepemilikan pemerintah, dan kepemilikan asing. Hal yang ditemui dari hasil penelitian ini yaitu dapat dibuktikan bahwa kepemilikan institusional memiliki hubungan positif terhadap risiko kesulitan keuangan yang disebabkan oleh kecenderungan investor institusional untuk melakukan *passive monitoring*. Sebaliknya kepemilikan asing dan kepemilikan pemerintah terbukti memiliki hubungan negatif terhadap risiko kesulitan keuangan, dengan alasan kemampuan investor asing dalam melakukan kontrol dan menjaga reputasi perusahaan di negara asalnya. Sedangkan, pemerintah memiliki *voting power* yang bersifat mutlak dengan adanya saham merah putih. Penelitian ini bermaksud untuk memberikan perspektif baru kepada pihak-pihak yang berkepentingan untuk pengambilan keputusan ekonomi.

Kata kunci: kesulitan keuangan, kepemilikan institusional, kepemilikan pemerintah, kepemilikan asing, kepemilikan manajerial

INTRODUCTION

Since 2015 until 2017, there has been an increase in cases of bankruptcy and delaying debt repayment. Even in 2017, there are 572 cases of debt payments suspended in *Sistem Informasi Penelusuran Perkara* (SIPP). Up until now, still no one benchmark

could become clear and definite enough to answer at which state a company is said to experience financial distress. Some previous studies refer to Financial Distress as a term where a company is at a stage before heading to bankruptcy or liquidation (Kamaludin and Pribadi, 2011). Whereas

other studies explain that a company is predicted to have financial distress when its EBITDA is lower than finance costs for two consecutive years and its market value also declines significantly for two consecutive years (Tinoco and Wilson, 2013; Rezende Montezano, Oliveira and Lameira, 2017). However, this study will define financial distress as the probability of failure of a company (Campbell, Hilscher and Szilagyi, 2011).

Corporate governance is very influential in maintaining company performance and helping companies to avoid financial difficulties that on an extreme scale can cause bankruptcy (Hodgson, Lhaopadchan and Buakes, *et al.*, 2011; Wang and Deng, 2006). Ownership structure and control activities of shareholders in the company can be one measure of corporate governance quality (Shahwan, 2015). The ownership structure of a company can be inferred from the composition and deployment of shareholders in a company. A positive correlation between concentrated ownership and company performance has been revealed in previous studies. This is since concentrated ownership generally reduces agency conflicts that may arise (Jensen & Meckling, 1976).

In its development, the impact of ownership structure on the possibility of a company experiencing financial distress was also carried out by several researchers (Udin, Khan, and Javid, 2017); Setiawan, Bandi, Phua and Trinugroho (2016). This was due to the financial performance of a company is not only influenced by the competence of the directors, but also the role of shareholders in determining strategic plans, appointing and dismissing directors, and carrying out control functions over the company. However, the findings of the previous study are still inconclusive.

According to Donker, Santen and Zahir (2009), managerial ownership can have a positive effect on company performance because management can make better decisions with internal information that is not known by external parties. Thus, the risk of financial distress will be low. In contrast, Udin *et al.* (2017) found that managerial ownership increases the possibility of fi-

nancial distress due to the misallocation of resources for the manager's self-interest.

Institutional investors also have managerial skills, better professional knowledge so that it can influence managers' decision-making and assist companies in determining the most effective strategies (Lin and Fu, 2017). Their monitoring role can help a company's performance and prevent companies from facing financial distress. However, institutional investors can be passive in monitoring, so their existence sometimes does not impact the company's performance due to little power (Mehrani, Moradi, and Iskandar, 2017).

Foreign ownership is suspected to have a positive correlation to control over a company in order to meet the expectations of shareholders from their home country (Chen, Firth, Gao and Rui, 2006). Thus, it can be concluded that with adequate controls from foreign investors, the company has a smaller possibility to get caught up in financial difficulties. After all, there is a growing trend of foreign investment in Indonesia according to BPS (Badan Pusat Statistik) in the period 2012-2019.

The government will prioritize the welfare of the community and utilize the companies it controls so that it can provide services to the community compared to making the most profit. However, the government also could provide no small capital injections and provide tax relief so that the possibility of financial distress in companies controlled by the government can be said to be quite small (Udin *et al.*, 2017). In fact, there are several BUMNs facing bankruptcy or financial distress (Kurniawan, 2019).

Thus, from the aforementioned, this study aims to analyze the impact of ownership structure on financial distress risks, in which the ownership structure is classified into 4 categories: managerial ownership, institutional ownership, foreign ownership, and government ownership. The inconsistency of prior studies, the growing of foreign investors in Indonesia and the increased bankruptcy rate in BUMN motivate this research to be done.

This study extends the previous study by Udin *et al.* (2017) in Pakistan's

manufacturing firms. Indonesia is having a similar situation with Pakistan where ownership structure is concentrated with low quality of corporate governance. By analyzing various industries in Indonesia, this research is expected to provide a broader view of varied ownership structures and their impact on the likelihood of financial distress. This research will contribute to the corporate governance and financial distress literature and give insights into the unique effect of each type of ownership structure onto the probability of financial distress to the company's manager, investor, and government. Previous studies on this topic in Indonesia have focused only on one or two types of ownership structure (Sabrina and Muharam, 2015; Warapsari and Suaryana, 2016; Hunardy and Tarigan, 2017; Jannah and Khoiruddin, 2017).

In the next section, this study will discuss the literature review from prior studies as a foundation for hypothesis development. Then, this study will elaborate on the research method and the findings. Lastly, the conclusion, limitation, and further research suggestions will be explained.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Research on financial distress has been carried out since the 1960s, this is due to the large number of enthusiasts in this topic who come from various cliques, sectors, and parties. In general, a company will be considered experiencing financial distress when it experiences some problems regarding its solvency (difficulty paying its debt) to the point that it is facing bankruptcy risk (Ross, Westerfield and Jaffe, 2012). Continuing from previous research, many researchers are also aware that one of the aspects that may affect a company's financial performance is good governance. The ownership structure is classified as one of the elements of corporate governance and is a further elaboration of agency theory. According to Jensen and Meckling (1976), ownership structure comes in different forms in a company and can be illustrated through the percentage of share ownership. Furthermore, several previous studies have also found a correlation between own-

ership structure and the possibility of a company experiencing financial distress (Wang and Deng, 2006; Hodgson *et al.*, 2011).

In its development, Udin *et al.* (2017) examined the effect of the type of ownership structure on the occurrence of financial distress. This research is essential because each type of ownership has its own characteristics and objectives. Based on Law no. 40 of 2007 regarding limited liability companies, shareholders have a large role and legitimacy in the General Meeting of Shareholders. Some of the rights possessed by shareholders include designing and determining the business plan, appointing and dismissing directors, and performing the function control of the company. Thus, the role of shareholders is very important in overcoming agency problems that will have an impact on the emergence of agency costs and corporate financial performance. Thus, there are risks that the type of ownership structure has an influence on the risk of financial distress in a company.

Agency theory is often used to study the relationship between individuals who have status as owners and employ other individuals (agents) to represent them in carrying out operations, which also means representing owners to make some managerial decisions. Although the owner will expect the agent to utilize resources optimally and choose decisions that can provide maximum benefits for the owner. However, in reality, this is not always the case, asymmetric information and conflict of interest can cause agency problems.

Managerial Ownership and Risks of Financial Distress

According to Donker *et al.* (2009), managerial ownership has a positive influence on the likelihood of financial distress. This is due to managers who also have voting power like other shareholders, can make decisions without having to worry about their positions or positions revoked and their compensation reduced. Furthermore, Shleifer and Vishny (1989) also prove that there is a positive influence between managerial ownership and financial distress.

With the reason that greater managerial ownership reduces the bargaining power of other shareholders to prevent the emergence of agency problems so that managerial ownership can act in accordance with following their own interests. On the other hand, there are several studies that have not been able to prove the influence between managerial ownership and the risk of financial distress such as research conducted by Wang and Deng (2006). This is due to the small percentage and number of companies owned by their directors in China.

On another occasion, Jensen and Meckling (1976) explained that investors can provide bonuses in the form of share ownership to motivate directors and avoid agency conflicts. This is also known as interest alignment, where managerial ownership manages to equalize the direction of interests between management and owner, therefore reducing agency conflicts and lowering agency costs (Donker *et al.*, 2009). Research by Widhiadnyana and Ratnadi (2019) believes that managerial ownership has a better ability to prevent bankruptcy. Thus, managerial ownership is considered capable of aligning the objectives between shareholders and management so that it can produce a better financial performance of the company and prevent financial distress. The reason for the formation of hypotheses is the belief that there is an impact of managerial ownership that can reduce agency conflict that can have an impact on faster decision-making processes and lower agency costs. In this way, managerial ownership is able to equalize the goals between shareholders and management, which is to produce a better financial performance of the company and prevent future financial difficulties.

H1: Managerial Ownership has a negative impact on financial distress indicator

Institutional Ownership and Risks of Financial Distress

Many previous studies have examined the relationship between institutional ownership and the financial performance of companies, but the results are still very varied. Research conducted by Udin, *et al.* (2017)

in Pakistan, found no significant relationship between institutional ownership on corporate financial performance. Similar results were also found in studies using other countries as samples, for example in the United Kingdom (Gregory and Wang, 2013) and Jordan (Al-Najjar, 2015). The result is due to macro conditions in the country. For example, in Jordan, investors do not have the authority to supervise corporate performance, whereas in Britain because the economic system is already very liberal and is very protective of its shareholders.

According to the view of "active monitoring" in the study of Lin and Fu (2017), institutional investors can appropriately supervise and monitor investment companies, reduce information imbalances, reduce agency problems so as to maximize the value of their investments. In addition, Indonesia itself has the Minister of Finance Regulation Article 2 of Law No. 7 of 1992 and POJK No.7 / 03/2016 which stipulates that institutional companies are required to maintain the trust of their customers and implement the precautionary principle. Therefore, the hypotheses is as follows:

H2: Institutional Ownership has a negative impact on financial distress indicator

Foreign Ownership and Risks of Financial Distress

Several previous studies have shown that there is a positive relationship between foreign ownership and company performance (Ongore, 2011; Jusoh, 2015). This is because foreign investors tend to be more profit-oriented and have many motives to monitor the management of the companies that are invested. A study conducted by Setiawan *et al.* (2016), said that companies whose ownership structures are controlled by foreigners have a tendency to maintain their company reputation in their home country.

Based on the result of previous research, this research will prove that foreign ownership can potentially reduce the possibility of financial distress in a company. The reason for this is that foreign companies that deposit not only their capital in the form of shares to domestic companies

but also their management expertise and the monitoring mechanism to the management are able to reduce agency conflicts (Jusoh, 2015). With the inclusion of management in a subsidiary, the parent company can more easily obtain information to carry out the supervisory function and the parent company is able to evaluate the information and take action related to the circumstances of the subsidiary company. The benefits of this are believed by researchers to reduce the risk of subsidiary companies in experiencing financial distress.

H3: Foreign Ownership has a negative impact on financial distress indicator

Government Ownership and Risks of Financial Distress

There are inconsistent results regarding the relationship of government ownership to financial distress. According to research conducted by Wang and Deng (2006) in China, there is a negative relationship between government ownership in a company and the possibility of financial distress in that company. This is because the government will endeavor to ensure that the company can provide a social impact to the outside community such as opening up jobs and developing the surrounding area. So, if the company experiences financial difficulties, the government can provide capital injections or relief in terms of taxation that can help companies to be able to develop the company's operational activities so that the risk of financial difficulties can be reduced.

This can also be proven by the 2019 RAPBN document which states that the

government will provide funds to three state-owned companies with a total value of Rp17.8 Trillion (Rp10 Trillion for PT PLN (Persero), Rp7 Trillion for PT Hutama Karya (Persero)), and Rp800 Billion for PT Sarana Multigriya Financial (Persero). That way this research will prove that government ownership has a negative relationship to the likelihood of financial difficulties. The reason for the formation of this hypothesis is very closely related to Law No. 19 of 2003 concerning SOEs that SOEs are agents of development and public services while the government is the regulator. That way companies owned by the government not only aim to provide public services but financial performance must also be optimized as an agent of the country's economic development.

H4: Government Ownership has a negative impact on financial distress indicator

RESEARCH METHODS

The sample of this study are companies listed on the Indonesia Stock Exchange (IDX) in the period 2011-2017 with the exception of companies engaged in the financial industry. The reason for the exclusion of financial companies in determining sample is a significant difference in financial statements, accounting standards, regulations and requirements for financial company governance with other industries which are feared to have an impact on the level of accuracy and information produced. Table 1 shows the total sample used in the research.

The data used in this study are secondary data and were obtained from reliable financial data sources such as the com-

Table 1.
Sample Selection Criteria

Sample Selection Criteria	Number of Companies	Number of Observations
Companies engaged in the non-financial sector during	520	2,371
Required financial data is not available	7	(32)
Ownership data is not accurate (above 100%)	9	(21)
Outlier according to the standardized residual process	83	(253)
Final Sample	421	2,065

pany's website, the Indonesia Stock Exchange website (www.idx.co.id), and Capital IQ. The type of data required is quantitative so that it can be measured and calculated directly. The data used is panel data, which is data taken from various companies for a certain period. To process the data that has been collected, this research will use the STATA 13 application.

The operationalization of variables are structured in Table 2. There are several variables such as risks of financial distress (AZS) as the dependent variable that will be measured by the second version of the Altman Z-Score which was revised in 1983 by

Altman. Altman Z Score is deemed a reliable predictor of financial distress because ratios used in Altman (working capital to total asset, retained earning to total asset, earning before interest and taxes to total asset, market value equity to book value of debt and sales to total asset) can explain the difficulties in the financial situation of a company (Gunawan, Pamungkas and Susilowati, 2017). The difficulties of financial situations are related to financial distress. Altman Z-Score under 1.80 means company is in the distress zone, between 1.8 to 2.99 means company is in the grey zone, while the score above 2.99 means

Table 2.
Operationalization of Variables

Variable	Indicator	Reference
Financial Distress Indicator (AZS)	Altman Z Score is used to construct financial distress indicator, as: $AZSt = 0.717X1 + 0.847X2 + 3.107X3 + 0.420X4 + 0.998X5$ Where X1 = Working Capital / Total Assets, X2 = Retained Earnings / Total Assets, X3 = Earnings before Interest and Tax / Total Assets, X4 = Book Value of Equity / Book Value of Liabilities, X5 = Sales / Total Assets	Udin <i>et al.</i> (2017), Gunawan, Pamungkas and Susilowati, (2017).
Managerial Ownership (MNG)	Shares held by insiders management divided by total shares issued	Udin <i>et al.</i> (2017), Lin & Fu (2017), Wang and-Deng (2006)
Institutional Ownership (INST)	Shares held by institutional company divided by total shares issued	Udin <i>et al.</i> (2017), Lin & Fu (2017), Liu <i>et al.</i> (2018), Gregory and Wang (2013)
Foreign Ownership (FRGN)	Shares held by foreign investors divided by total shares issued	Udin <i>et al.</i> (2017), Ongore (2011)
Government Ownership (GOVT)	Shares held by government divided by total shares issued	Udin <i>et al.</i> (2017), Wang & Deng (2006)
Firm Value (TBQ)	Natural Logarithms of Tobin's Q	Shahwan (2015)
Profitability (ROA)	Net Income divided by Total Assets	Setiawan <i>et al.</i> (2016)
Leverage (DER)	Total Debt divided by Total Equity	Hull, Stretcher and Johnson (2011)
Company Size (SIZE)	Logarithms of Total Asset	Huang, Kabir and Zhang (2018)

company is in the safe zone. Udin *et al.* (2017) also used Altman Z Score as a financial distress indicator, however Udin *et al.* (2017) employed the first version of Altman Z formula because the sample is limited to manufacturing companies only.

Furthermore, there is a structure of ownership as an independent variable divided into four types of ownership, namely, managerial ownership (MNG), institutional ownership (INST), foreign ownership (FRGN), and government ownership (GVNT). The measurement method used in measuring ownership is to look at the percentage between the number of shares owned by each type of ownership and the total issued shares (Udin *et al.*, 2017; Wang and Deng, 2006). Furthermore, in this study there are control variables of the company's market value (TBO) measured by Tobin's Q (Shahwan, 2015), profitability (ROA) with return on assets (Setiawan *et al.*, 2016), capital structure (DER) with debt to equity ratio (Hull, Stretcher, and Johnson, 2011), firm size (SIZE) with the logarithm value of total assets (Huang, Kabir and Zhang, 2018). The regression model for the research is as follows:

$$AZSit = \alpha_0 + \alpha_1MNGit + \alpha_2INSTit + \alpha_3FRGNit + \alpha_4GOVTit + \alpha_5TBOit + \alpha_6ROAit + \alpha_7DARit + \alpha_8SIZEit + \epsilon it \dots\dots\dots(1)$$

Table 3.
Descriptive Statistic

	Mean	Std. Dev	Min	Max
AZS	1.3679	0.9245	-3.9111	4.4430
MNG	0.0611	0.1509	0.0000	0.9320
INST	0.0820	0.1380	0.0000	0.9458
FRGN	0.2724	0.3204	0.0000	0.9977
GOVT	0.0300	0.1384	0.0000	0.9003
TBO	0.0167	0.7531	-5.1337	3.1232
ROA	0.0344	0.0942	-1.2110	0.5266
DAR	0.2713	0.2200	0.0000	2.2235
SIZE	6.4286	0.6939	4.1790	8.4710

ANALYSIS AND DISCUSSION

Table 3 shows that on average, the value of the Altman Z-Score for companies listed on the Indonesia Stock Exchange is at 1.37, which shows that the financial performance of these companies must be further analyzed because it can not be defined according to the categorization of Altman Z-Score. The smallest value for the value of Altman Z-Score is in the category of companies experiencing financial distress is -3.9111. Instead, the largest number of Altman Z-Scores from total observations is 4.4430.

As mentioned before, the amount of companies that experience financial distress increases every year. In fact, as seen at Table 4, the amount of companies with unstable financial conditions also increases each year, followed with the decreasing number of companies that have good financial conditions according to Altman Z-Score. There are only 7 companies out of 421 companies that managed to keep their financial records within the healthy financial conditions throughout 2012 to 2017, they are: PT Surya Citra Media Tbk, PT Multi Bintang Indonesia, PT Selamat Sempurna Tbk, PT Kalbe Farma Tbk, PT HM Sampoerna Tbk, PT Ace Hardware Indonesia Tbk, dan PT Unilever Indonesia Tbk.

In general, each director that was stated to have share ownership in the company, owns only 0.79%. This applies to companies with managerial ownership be-

Tabel 4.
Number of Companies in Each Category of Altman Z-Score

Year	Bearing the risk of Financial Distress	Grey Area	Low probability of Financial Distress
2012	109	157	27
2013	129	168	20
2014	144	180	16
2015	166	167	15
2016	185	171	16
2017	190	188	17

low 20%. Whereas companies with management ownership above 20 percent but still do not control the majority of voting rights, each management only controls 6.47 percent. Even for companies whose management ownership is above 50 percent, on average each director only holds 15.74 percent. In general, managerial ownership is divided between 6-7 directors in each company.

As shown in Table 5, based on institutional ownership, 716 out of 2,065 observations have not been owned by financial institutions at all and more than half of all observations (53.41%) institutional ownership is only under the figure of 20 percent. Seeing this, it can be concluded that institutional investors are not too interested in investing in Indonesian companies in large numbers and most financial institutions invest in various companies to enrich the variance of their investment assets to reduce investment risk.

Compared to the other three dependent variables, the level of foreign ownership in Indonesia is on average much higher than other types of ownership. This shows that companies in Indonesia are capable enough to compete with foreign companies so that they are able to attract the interest of foreign investors in a number that is not small. From 538 observations that have foreign ownership above 50%, there are 405 observations whose ownership is controlled by a certain foreign company.

Table 5 also shows state-owned companies that have been listed on the Indonesia Stock Exchange are very limited, not even reaching five percent of the total observations. In addition, companies that are

partly owned by the government will usually also be controlled by the government, even in certain companies the government ownership is almost 100 percent. However, it should be noted that most state-owned companies listed on the Indonesia Stock Exchange also generally have two types of shares, Merah Putih shares and common ownership shares. Merah Putih Stocks have a greater voting power than Type B shares. Thus, even though government ownership does not reach 50 percent, the government can still control the direction of the company following in accordance with the government's wishes with the voting power owned by the Merah Putih Shares.

Based on the firm's market value control variable, 1150 observations (55.69%) were found to have Tobin's Q value below 1. Thus, it could be concluded that most of the companies were rated lower than the book value or in other words undervalued. On average, the value of the return on asset (ROA) variable reaches 3.44% percent, while the capital structure ratio (DAR) reached 27.13 percent. This can illustrate that the companies listed on the Stock Exchange tend to have a positive rate of return and able to pay off debt (debt) using its assets. The average total assets of Indonesian companies are around Rp8.93 Trillion. However, if seen from the median figure (Rp2.58 trillion), it can be seen that the ownership of assets of most companies in Indonesia is below that number.

Table 6 (attached) shows the correlation matrix. For the dependent variable of this study, namely AZS, significant correlations were found with all of the control variables of this study, with the except forion of SIZE. A negative relationship was found between DAR and AZS. This can be explained by the fact that companies whose assets are mostly financed with loans, generally have the possibility of experiencing greater financial distress. The positive relationship between the Return on Assets, TBQ and AZS ratios can be supported by the explanation that companies that have the ability to optimize the use of assets more effectively and efficiently in an effort to increase corporate profits and be able to create high value creation in general will

Table 5.
Number of Observations in Each Level

	Level of Ownership			
	0%	<20%	20%-	>50%
MNG	766	1,099	132	68
INST	716	1,103	195	51
FGRN	569	644	314	538
GOVT	1,962	10	0	93

reduce the possibility of companies experiencing financial distress.

Based on foreign ownership, it can be concluded that foreign investors are more interested in investing in companies whose shares have been owned by financial institutions. There is a tendency that foreign investors also avoid state-owned companies, this could be due to the desire of foreign investors to reap maximum profits while for state-owned companies themselves prioritize social interests over high profits. Companies that are partially owned by Management tend to have a negative correlation with other types of ownership.

Based on Table 7, there are three independent variables that have a significant relationship to the risks of financial distress (AZS), namely institutional ownership (INST), foreign ownership (FRGN), and government ownership (GOVT). Table 7 also shows a significant positive relationship between TBQ and ROA control variables and its dependent variable (AZS). On the other hand, the control variables of DAR and SIZE have a negative relationship to AZS.

Table 7.
OLS Regression Result

Variables	Coefficient	P > t
INST	- 0.2217	0.000***
MNG	0.0455	0.088
GOVT	0.2401	0.000***
FRGN	0.2385	0.000***
TBQ	0.0663	0.000***
ROA	5.6453	0.000***
DAR	- 1.3085	0.000***
SIZE	- 0.0896	0.000***
Constanta	2.0468	0.000***
Prob > F		0.0000
Adjusted R ²		0.6277
Root MSE		0.5652

Notes: *** Significant at the 1% level

Managerial Ownership Impact on Risks of Financial Distress

Hypothesis test results in table 7 show there is no significant positive relationship between managerial ownership structure and the Altman Z-Score at 5 percent significance level. One explanation is that there is a large volume of observations with managerial ownership, but in a small percentage. It means that this type of ownership does not have a strong enough voting power that can influence the direction or decision of the company. Wang and Deng (2006) explained that the cause of managerial ownership did not had no influence on the risks of financial distress, namely that in China there were still very few companies owned by management. Therefore it cannot be proved the influence of managerial ownership on the possibility of a company experiencing financial distress. The same thing was also generated by research conducted in Indonesia by Warapsari and Suaryana (2016) and Jannah and Khoiruddin (2017).

Therefore, what can be proven from the results of the first hypothesis test is that the giving of shares to management is common in Indonesia. However, giving shares as incentive still cannot prove its effectiveness in reducing the possibility of financial distress. Most likely this is based on an insignificant proportion that causes the failure of alignment interest between directors and other majority shareholders.

Institutional Ownership Impact on Risks of Financial Distress

Furthermore, it can be proven in this study that institutional ownership has a significant negative effect on Altman Z-Score, which also means positive effect on the risks of financial distress in a company. Based on research conducted by Elyasiani and Jia (2010), it is said that there is a tendency of "passive monitoring" by institutional investors. "Passive monitoring" refers to the tendency of institutional investors not to carry out strict monitoring of the company and not interfere in management activities because institutional investors only expect profits from the sale and purchase of shares (expecting capital gains). In

this condition the main focus of institutional investors is not to make long-term investments. The same thing is also stated with research conducted by Brickley, Lease and Smith *et al.* (1988), that there is a positive relationship between the "no-votes" act conducted by institutional investors. The "no-votes" act itself can be defined in terms of the level of participation or voting in decision making. Thus institutional investors tend to be apathetic when there is a decision making with a voting mechanism even though it involves a strategic decision.

The reason for this phenomenon is very much similar to the passive monitoring view, that as long as institutional investors still benefit from these investments institutional investors tend to be apathetic. Furthermore, the large variance in the portfolio of shares owned makes it more difficult for institutional investors to carry out supervisory functions for each company they own. The impact that may arise with this tendency is a decline in company performance which can lead to an increase in the likelihood of a company's financial difficulties. In addition, the impact of this tendency is that management can act in the interests of management even though it can have a negative impact on the company (agency conflict).

Foreign Ownership Impact on Risks of Financial Distress

Table 7 shows foreign ownership has a positive impact towards Altman Z-Score. Therefore, foreign ownership is proven to have a negative influence on the occurrence of financial distress. Thus, the third hypothesis in this study was accepted. The results of this study are consistent with research conducted by Ongore (2011) and Setiawan *et al.* (2016). Research conducted by Jusoh (2015) shows that foreign ownership can reduce agency problems and have a positive impact on a company's financial performance. The reason might be that foreign companies tend to perform better supervisory or control functions. One method used is to place representatives from their home countries to be placed on their subsidiaries Ongore (2011). Udin *et al.* (2017) explain that there is a trend that shows the

main focus of foreign investors, namely profits. In addition, the study said that foreign ownership was able to optimize the use of technology better to perform better control to the directors.

Furthermore, Setiawan *et al.* (2016) said that foreign investors always make efforts to maintain the reputation of the parent company in their home countries. Therefore, the oversight and governance functions will be better managed. The higher a company is controlled by foreign investors will have an impact on the high business expended by foreign investors in carrying out the control function (Shleifer and Vishny, 1986), as an effort to ensure that the invested company can provide a return on investment.

In addition, it is believed that equity participation by foreign investors is also accompanied by management or representative participation as a strategic oversight and decision-making function of the subsidiary. Of course, the inclusion of foreign management is able to increase knowledge and outlook in making strategic decisions that can later have a positive impact on company performance. Therefore, foreign ownership has proven to be able to reduce the possibility of financial distress.

Government Ownership Impact on Risks of Financial Distress

Table 7 also shows government ownership has a positive effect on Altman Z-Score. Thus, it is proven that there is a negative relationship between government ownership and financial difficulties so that the fourth hypothesis is accepted. This phenomenon can be explained by the theory prepared by Sugiharto (2005) that government-owned companies will tend to have monopolistic characteristics (Example: PT Telekomunikasi Indonesia Tbk and PT Perusahaan Gas Negara Tbk). With the characteristics or tendency to monopolize, government-owned companies can make decisions that benefit the company itself and prevent a decline in company performance.

The characteristics of companies owned by the government are usually companies related to the interests of the community or able to influence the country's

economy (PT Kimia Farma Tbk, PT Indofarma Tbk, PT Krakatau Steel, and others). This is very related to the development view and political view (Kobeissi & Sun, 2010). Development view itself means that government ownership in the economic sector is needed with to the aim of starting economic development and encouraging rapid growth, especially in countries whose economic institutions are not yet well developed. In addition, there are also other views, namely Political View, a situation when the government will try to control companies to avoid the possibility of things that can harm the company and disrupt the stability of the country's economy.

Previously, there were also consistent results from previous researchers who conducted studies on the effect of government ownership on corporate financial performance (Sabrina, 2011; Hunardy and Tarigan, 2017). Although some of these studies use slightly different samples, this consistent result can be concluded arising from the existence of special shares (Merah Putih shares) specifically designed so that the government has absolute rights to set a company's strategic plan. Therefore, with the view of development view, political view, and the presence of multi voting rights, the government is able to encourage its companies to optimize the use of capital so that financial difficulties can be avoided so that services to the community can continue.

CONCLUSION

This study aims to examine the effect of ownership structure on risks of financial difficulties by studying the trends of 421 companies during 2012 to 2017 (2,065 observations). The results of the regression can not prove the relationship between managerial ownership and the Altman Z-Score as an indicator of financial difficulties. Furthermore, the regression results show a positive relationship between institutional ownership and risks of financial difficulties. On the other hand, it has been proven that there is a negative relationship between foreign ownership and government ownership on the risk of financial difficulties in a company.

Each control variable in this study proved to have a relationship with the Altman Z-Score as an indicator of financial difficulties. As a control variable, the company's market value and profitability have a negative influence on the Altman Z-Score. On the other hand capital structure and total assets have a positive relationship with the Altman Z-Score.

LIMITATIONS AND SUGGESTIONS

Some limitations in this study include using only the Altman Z-Score formula as an indicator of financial difficulties. This study also has not considered market conditions, governance and other aspects that can affect a company's going concern. Therefore, future research could study in depth regarding market size and growth to gain new perspectives in the studies. Other than that, the aspect of corporate governance is also very interesting to be looked at more, for instance gender diversity, location of the managements, the quality of financial report and many more.

In addition, this study does not divide the types of ownership into concentrated and dispersed ownership, which might affect the deliberating process of reaching a final decision for the company. Finally, this study also did not make a detailed grouping of types of institutional ownership, ie. insurance companies, banking, etc . Future research could study this topic to gain the characteristics of each institutional ownership and also motives in investing to identify which types of institutional companies tend to do short-term investment or long-term investment.

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APPENDIX

Table 6.
Correlation Matrix

	AZS	INST	MNG	GOVT	FRGN	TBQ	ROA	DAR	SIZE
AZS	1.000								
INST	-0.0130	1.000							
MNG	0.0004	-0.1126 ***	1.000						
GOVT	0.0355	0.0322	-0.0862 ***	1.000					
FRGN	0.2032 ***	0.2079 ***	-0.1778 ***	-0.1241 ***	1.000				
TBQ	0.3062 ***	0.0653 ***	-0.0174	0.0555 **	0.1485 ***	1.000			
ROA	0.7252 ***	0.0164	-0.0152	0.0307	0.1747 ***	0.4161 ***	1.000		
DAR	-0.5547 ***	0.0011	-0.0147	-0.0244	-0.1322 ***	-0.0228	-0.3805 ***	1.000	
SIZE	-0.0416 *	0.1495 ***	-0.1811 ***	0.2491 ***	0.2449 ***	0.0920* **	0.0866 ***	0.1674 ***	1.000

*** Significant at the 1% level; ** Significant at the 5% level

Notes: AZS is Altman Z-Scores; INST is Institutional Ownership; MNG is Managerial Ownership; GOVT is Government Ownership; FRGN is Foreign Ownership; TBQ is Natural Logarithm of Tobin's Q Value; ROA is the Return On Asset Ratio; DAR is the Debt to Asset Ratio; SIZE is Logarithm of Total Asset