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**THE 1ST INTERNATIONAL CONFERENCE ON
ECONOMICS, BUSINESS, AND ACCOUNTING**

Proceeding

**“LOCAL WISDOM FOR RE-THINKING
GLOBAL SOLUTIONS”**

Padang, 21st – 23rd September 2016

**FACULTY OF ECONOMICS
UNIVERSITAS NEGERI PADANG**

Sponsored By :



PT. Pegadaian Persero



Bank Nagari

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OWNERSHIP STRUCTURE AND COMPANY PERFORMANCE FROM AGENCY PERSPECTIVE

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Abstract

A separation between ownership and control could create agency conflict. Owners hire a managers to act based on shareholders best interests. Decision of managers could hopefully increase shareholders' wealth and thus contribute to company performance. Such an ideal situation might not exist as managers normally act based on their interests. As a result, an agency conflict might arise between shareholders and managers. Therefore, a mechanism to mitigate agency conflict between managers and shareholders is needed. Ownership structure could be used as a mechanism to overcome agency conflict. It can be a means to reduce agency costs related to the separation between control and ownership. The ownership structure, in this case, refers to the distribution of shareholding which includes insider ownership, institutional ownership, foreign ownership, and shareholders' dispersion. The emergence of insider ownership can realign a manager's interest with that of shareholders. The existence of institutional ownership, however, can reduce the entrenchment problem because it is usually an effective monitoring agent that could control managerial behaviour. Besides, foreign ownership is also considered a good monitoring agent because they may have the experience and expertise in controlling agency conflicts. Dispersed ownership is typically less effective in monitoring managers; in fact as it gives a free hand to the managers it may increase agency cost and reduce company performance. However dispersed ownership also implies that greater proportion of shares is not controlled by certain parties which may instead reduce agency cost and increase company performance.

Keywords: *Agency Conflict, Ownership Structure, Company Performance*