

Identifying the Influence of Ownership Structure, Business Diversification and Company Size on Company Value

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This study investigates the influence of ownership structure, business diversification and company size on company value that listed in Indonesia Stock Exchange (IDX) in the period of 1996-2005. Population of this study is all listed companies in IDX in the period of analysis. The purposive sampling is used to determine the number of sample. Based on 210 company-year observations, regression was executed, and the analysis found that size significantly contributed to company value which measured by market to book value ratio (MBVR) while one proxy of ownership structure (foreign ownership) was found to be significant in influencing company value. Diversification of business did not seem to influence company value. Company size has negative and significant effects on company value. Perhaps, in an emerging market such as Indonesia, managers acted based on their own interest by enlarging company to pursue high salary and other perquisites. Therefore, large company in IDX could not reap benefit of greater economies of scales, better competitive position, having more skilled managers, and having greater access to cheaper sources of funds. It means that listed companies on the IDX could decrease company value by increasing their size. This implies that the investors must control large company effectively.

Keywords: *Company Value, Ownership Structure, Diversification and Size*

JEL Codes: G32, G34

1.

Introduction

A separation between ownership and control could create agency conflict. Owners hire a manager to act based on shareholders best interests. In reality, manager does not always act based on shareholders interests particularly on issues related to management decision in diversification of business and company size. Diversification of business could affect company value through the internal capital market which divisions that have high cash flows but poor investment opportunities finance divisions with low cash flows but excellent investment opportunities. Diversified companies may have less need to depend on the external capital market, as they may be able to channel funds from divisions with excess funds to divisions with deficit funds at lower cost (Williamson, 1975, 1985). This should increase their performance provided that their divisions' funds positions are not perfectly positively correlated, which is more likely to occur if the divisions are independent, from unrelated, rather than related, diversification. Kock and Guillen (2001) noted that the outcomes of corporate diversification will vary across countries because of the influence of the institutional environment within which diversification takes place. Khanna and Palepu (1997), and Lins and Servaes (2002) state that companies in less institutionally developed economies will benefit more substantially from internal capital market than companies in more institutionally developed economies. This is caused by high imperfection in external capital market and companies face some difficulties to access external capital market in emerging market such as Indonesia. However, a diversified company could reduce a company's performance when a manager diversifies business based on his or her interests. Sometimes, a manager diversifies the company to defend him/herself, such as by enlarging the company only to get more salary, prestige and compensation from managing a large company (Jensen, 1986; Stultz, 1990).

Company size is also a determinant of company value. A larger company is usually more established and it is assumed that it could operate effectively and outperform a smaller company. Nevertheless, a larger company has high agency costs (Jensen & Meckling, 1976) since shareholders face some difficulties in monitoring top management (Himmelberg, Hubbard, & Palia, 1999; Sarkar & Sarkar,

2000). This creates agency conflict and decreases company value. This is further supported by Sitepu (2010) who found that large companies collapsed during the crisis in Indonesia. Therefore, there is a need for a mechanism to overcome agency conflict. Ownership structure could be used as a mechanism to mitigate agency conflict in listed companies on IDX which in turn influence company value. Hence, this study needs to be carried out to investigate whether ownership structure, diversification of business and company size influence performance of listed companies on IDX.

2. Agency Theory

Agency relationship is a common phenomenon in a large company. Jensen and Meckling (1976) define agency relationship as "... a contract under which one or more persons [principal(s)] engage another person (the agent) to perform some services on their behalf which involves delegating some decision making authority to the agent" (p.5). Based on this definition, an owner hires an agent to act on the former's interests. It is expected that the agent would utilize the company resources efficiently to improve performance. In reality, however, an agent does not always act in the best interests of the principal because the owner could diversify his/her investments, while the manager is limited to his/her human capital only. Agency relationship becomes a problem when the owner delegates the decision making power to an agent. This problem would not exist if an agent could align his or her interest with the owners' interest based on a perfect contract. Agency theory is developed to predict behaviour of the agent and the owner based on an assumption that an agent pursues the welfare of owner (Byrd, Parrino, & Pritsch, 1998).

Murphy (1985) argued that managers have incentives to cause their company to grow beyond the optimal size. Growth increases the managers' power by increasing the resources under their control. Growth is also associated with an increase in managers' compensation. In addition, if shareholders disagree with the decision of the manager, they can use their right to discipline the manager in order to pursue the shareholders' welfare. In other words, if shareholders are not satisfied with the manager's performance, they can sell their share to other investors. Thus addressing the conflict of interest between the manager and the owners creates agency cost.

In summary, the conflict between manager and shareholders will influence a company's value. Therefore, there is a need for a mechanism to align manager's self-interests with that of shareholders.

3. Monitoring Mechanisms to Control Agency Conflict

According to Jensen and Meckling (1976), there is a tendency for a large company to face agency problems because of the separation of function between decision making and risk bearing. In this situation, a manager tends to use company's additional returns to consume perquisites (e.g. purchase of a corporate jet). This might reduce the company value. Such situation is known as equity agency cost. In order to minimize the conflict between insider ownership and outside shareholders, a monitoring mechanism is needed to align their interests. Such mechanism can generate agency cost for the company although it is intended to reduce overall agency cost.

To overcome agency problems and reduce attendant costs, several mechanisms can be used. The first approach is to increase insider ownership as the agency problem can be reduced if managers hold shares of the company (Crutley & Hansen, 1989; Jensen & Meckling, 1976). Managers will not act as an opportunist since they will also bear the consequences of their decision. Secondly, there should be an institutional investor as a monitoring agent since the institutional investor, such as banks, fund companies, and other institutions, has an incentive to monitor performance of a manager in an efficient manner. Bathala et al. (1994) stated that institutional investors are important monitoring agents who have an important role to control their investment in a company. This monitoring mechanism will ensure an increase in shareholders' satisfaction.

According to Shleifer and Vishny (1986), large shareholders such as institutional investors can monitor managers effectively and reduce the power abuse among them. The significance of institutional investors as monitoring agents is captured by their sizeable equity of investments in the stock market. If institutional investors are dissatisfied with managerial or stock performance, they can simply sell their holdings i.e. follow an exit policy. However, the exit policy has become increasingly difficult for many institutions because it has become increasingly more expensive because they must accept substantial discounts in order to liquidate their holdings (Coffee, 1991). Foreign ownership is the next mechanism to mitigate agency conflict. As for local investors, foreign investors have greater interest to ensure that the company can generate returns (Pound, 1988) and they can use their voting rights to control the manager. Therefore, the emergence of foreign investors causes managers to act more carefully and pursue shareholders' best interests. This could mitigate agency conflict and contribute to company value. Distribution of shares among 'outside shareholders' (other than manager and insider ownership) is another approach to mitigate agency costs that might affect company value (Moh'd et al., 1998). Since ownership indicates a source of power that can be employed to either support or oppose existing management, concentration or dispersion of that power becomes relevant. Moh'd et al. (1998) used two measures of outside shareholders concentration. The first proxy was institutional investors where their arguments concentrated on disciplining performance. The natural log of the number of outstanding shareholders was the second proxy. Rozef (1982) argued that the greater the number of shareholders, the more diffused is the ownership (Moh'd et al., 1998), hence a negative relationship should be expected between the number of shareholders and company value.

The above discussion implies that managerial ownership and institutional ownership are useful in mitigating agency costs. However, these mechanisms are not without cost. Excessive managerial ownership of common stock may lead to entrenchment problem. Voting and take-over mechanisms would probably fail if managers are unwilling to invest too much of their personal wealth. Moreover, even too much institutional ownership may have costs associated with it. Some have argued that institutional ownership increases stock price volatility while others suggest that it induces short-term myopia in management. If institutional investors are dissatisfied with performance of a manager, they tend to sell their share and this situation might cause a sharp decline in stock prices.

4. Efficient-Monitoring Hypothesis, Conflict-of-Interest and Strategic-Alignment Hypothesis, and Rescue-Acquisition Hypothesis for Institutional and Foreign Ownership

There are several hypotheses that explain the effect of institutional and foreign ownership on company value (Pound, 1988). First, the efficient-monitoring hypothesis predicts a positive relationship between institutional or foreign ownership and company value. Foreign investors have greater interest to ensure that the company can generate returns since normally, they have a lot of capital to be invested (Khanna & Palepu, 1999). Foreign investors can use their voting rights to control the manager. According to this hypothesis, their interests reflect the manager's interests.

The second hypothesis is the conflict-of-interest and strategic-alignment. Foreign or institutional investors usually have many other aspects of profitable business relationship with a specific company. To keep good and favorable relationships, foreign or institutional investors could use their voting rights to support the current managers. That is, their interests would divert from the owner's or other shareholder's interests, but coincide with the manager's interests. The strategic-alignment hypothesis suggests that foreign investors and managers find it mutually advantageous to cooperate (Pound, 1988). This cooperation reduces the beneficial effects on company value that could result from monitoring by foreign investors. This would mean that foreign or institutional investors tend to pursue their interests by aligning their strategy to manager's insofar as it could achieve their goals. This situation would increase agency conflict between institutional or foreign investors and other shareholders, thus contributing to a decrease of company value. Therefore, the conflict-of-interest (between institutional or foreign investors and other shareholders) and the strategic-alignment (between institutional or foreign

investors and managers) hypothesis both predict that there is a negative relationship between foreign or institutional ownership and company value.

Finally, rescue-acquisition hypothesis argues that company with poor performance tends to add more foreign investors. This statement is supported by Zeckhauser and Pound (1990) in that company value might increase with the existence of foreign investors. Because they normally have a lot of funds, foreign investors are usually very careful in their investment. Expectedly, they will fully utilize their right to monitor and to discipline managers. An effective monitoring by foreign investors might reduce agency conflict among shareholders and consequently this has an effect on company value.

5. Internal Capital Market Hypothesis and Minority Shareholders Hypothesis for Diversification of Business

Lins and Servaes (2002) stated that corporate diversification could affect company value in two ways. Firstly, the use of internal capital market hypothesis can lead to higher values for diversified companies. Internal capital market refers to the division with high cash flows that can finance the division with low cash flows; thus it is hoped that this will influence a company's value. Furthermore, the internal capital market hypothesis proposes that diversification provides greater benefits for companies operating in less institutionally developed environments (Chakrabarti, Singh, & Mahmood, 2007) such as Indonesia. The second hypothesis states that minority shareholders can be more easily expropriated in diversified companies. Large shareholders tend to divert resources for their personal use or to invest funds in unprofitable projects or divisions that provide private benefits (Lemmon & Lins, 2003). This situation might imply a lower company valuation. There is a strong support for the expropriate hypothesis, but not for the internal capital market hypothesis (Lins & Servaes, 2002). This is because every country has its own institutional characteristic. In a less institutionally developed and greater imperfection of external market such as the emerging market, the internal capital market could perform better (Khanna & Palepu, 1997).

6. Ownership Structure

Ownership structure in this chapter refers to the distribution of shares held by individuals or institutions in a company. According to Cui and Mak (2002), Demsetz and Lehn (1985), Driffield et al. (2007), Holderness and Sheehan (1988), Jensen and Meckling (1976), Kumar (2005), McConnel and Servaes (1990), Morck et al. (1988), Randoy and Goel (2003), Shleifer and Vishny (1986), Short and Keasey (1999), and Wei (2007), the ownership structure of equity is associated with company value because it was found to reduce agency costs due to the separation between ownership and control (Barbosa and Laori (2002) as cited by Kumar (2005)). In this sense, ownership structure might be a mechanism that can be used to mitigate agency costs. Firstly, ownership structure affects capital market growth. While concentrated ownership usually misallocates the capital in an economy, dispersion of ownership structure might promote capital market as it is easy for investors to enter or exit the capital market (Maher and Anderson (1999) as cited by Yet and Guan (2005)). This is indicated by a large number of shareholders in a company. Secondly, ownership structure functions as a monitoring and managing mechanism through the market control to reduce misallocation of funds that might support a company's performance (Fama & Jensen, 1983; Short et al., 2002).

1. Empirical Evidence on Insider Ownership as a Monitoring Mechanism of Agency Conflict

Insider ownership is the percentage of company shares held by the manager and/or board of directors of a company. Insider ownership is sometimes referred to as managerial ownership. It realigns manager's interest with shareholders as they are also the owner of the company. This could contribute positively to company value. Morck, Shleifer, and Vishny (1988) and McConnel and Servaes (1990) provided

evidence on a significant relationship between managerial ownership and institutional ownership and company value. The finding is also supported by Agrawal, Knoeber, and Charless (1996), Chen and Ho (2000), and Cui and Mak (2002) who found a relationship between company value and managerial ownership. These studies have generally concentrated on developed capital markets such as the U.S. and the U.K. Very little has been done on the topic of ownership structure and company value in emerging markets such as Indonesia.

6.2 Empirical Evidence on Institutional Ownership as a Monitoring Mechanism of Agency Conflict

Institutional ownership is the percentage shares of company held by institution. Institutions usually hold company shares in a large number. This means institutional ownership has a large voting right and power in a company, which means that their ownership has an important impact on company value. The large shareholders have strong financial incentive to monitor company management, and thus their actions may mitigate agency costs and enhance company value (Yet, 2008). Therefore, institutional ownership is considered as one of the mechanisms to control agency conflict. Shleifer and Vishny (1986) suggested that institutional investors have high motivation to monitor company value. Institutional investors reap a large benefit on their monitoring and they have greater voting rights. This enables them to take corrective action as needed. Besides that, Breacky, Lease, and Smith (1988) and Jarrell and Poulsen (1987) argued that institutional shareholders might be able to exercise their right to reject suboptimum amendments that reduce shareholders' wealth.

6.3 Empirical Evidence on Foreign Ownership as a Monitoring Mechanism of Agency Conflict

This section involves globalization in capital markets that is associated with the existence of foreign investors. Foreign investors normally invest their funds in good performance companies. They are analogized having a lot of capital, high experience, and more expertise. Hence, this allows them to monitor the manager with a lower cost as compared to small shareholders. Foreign investors frequently present technological advantages in the business (Okimura (2003) as cited by Rogers et al. (2008)). Therefore, foreign investors play an important role as a source of corporate governance in determining company value.

Existence of foreign investors (individual or institution) has a positive effect in controlling managerial entrenchment and agency cost (Randoy & Goel, 2003; Stultz, 1999). Previous studies suggested that foreign institutional ownership might be able to reduce agency costs (Stultz, 1999) and could increase company value since they had a lot of experience in controlling managerial problems (Chibber, 1998; Chibber & Majumdar, 1989; Khanna & Palepu, 1999; Kumar, 2005; Patinbadla, 2002). Nevertheless, Sulong and Nor (2008) found that foreign ownership had an insignificant inverse relationship to companies' value (Tobin's Q), which means foreign ownership could not play a role in mitigating agency conflict in the KLSE. This is consistent to Kumar's (2005) finding.

7. Diversification of Business

Diversification of business in this section is explained by the number of business segments a company owns. If a company has only one business segment, it is known as a focused company. On the other hand, if the company has more than one business segment, it is called a diversified company. Diversification of business is anticipated to have an effect on company value. Berger and Ofek (1995) argued that diversification can either create or destroy company value. They found that diversified companies trade at a significant discount of approximately seven percent as compared to a single-segment company in an emerging capital market. Afza, Slahudin, and Nazir (2007) stated that diversification may be related to higher performance, which may be attributed to increased market share, economies of scale, and better exploitation of resources. However, agency problem and divergent approach of managers may result in lower profitability.

Existing literature remains inconclusive on the effect of diversification on company value. While some researchers reported a positive impact of diversification on a company's performance, others reported a negative effect. However, the most of previous studies were carried out in developed economies. Very few studies that focused on diversification and company value in emerging markets were conducted. Furthermore, recent evidence shows that diversification has not been beneficial for U.S. companies over the last three decades. This indicates that, on average, companies have not been able to exploit the potential benefits of diversification while controlling the costs. Studies during the late 1960s and early 1970s have provided evidence on the benefits of corporate diversification. Chandler (1977) argued that companies with multiple divisions lead managers to use the company's assets effectively among business divisions. As a result, it could increase company value. Weston (1970) states that resource allocation is more efficient in internal capital market than in external capital markets. He therefore suggested that diversified companies allocate resources more efficiently because they have a larger internal capital market. Resource relatedness, or the use of common resources in multiple businesses, creates synergies in the form of economies of scope (Davis & Thomas, 1993).

8. Company Size

Company size had an ambiguous effect on company value (Kumar, 2005) because it can either increase or decrease company value. Large companies might turn out to be more efficient as they are likely to exploit economies of scale, employ more skilled managers, and have greater specialization and formalization of procedures, all of which might lead to better performance (Driffield et al., 2007; Gupta, 1969; Lang & Stultz, 1994). It also measures a company's market power or the level of concentration in the industries. Transaction costs involved in the issuance of securities are also related to company size (Gupta, 1969; Smith & Watts, 1992). In particular, small companies face some difficulties and pay much more than large companies when issuing new equity and long-term debt. On the other hand, larger companies have easier access to the capital market since they have a large assets base as a guarantee.

Mickkelson, Parch, and Shah (1997) suggested that larger companies tend to have better performance than small companies. Some authors found that company size had a significant positive effect on company value (Chakrabarti et al., 2007; Chen & Ho, 2000; Kumar, 2005; Ming & Gee, 2008; Serrano-Cinca et al., 2007; Short & Keasey, 1999; Titman & Wessels, 1988; Zeitun & Tian, 2007). Short and Keasey (1999) reported that company size has a significantly positive effect on performance because larger companies have the potential to access funds with greater ease, both internally and externally and have better growth opportunities. Larger companies may have greater analyst following and thus have more information available to reduce information asymmetry and a wider share spread and ownership profile. Accordingly, many past studies have used total assets as a proxy for company size. Alternatively, another proxy for company size commonly used in prior research is market capitalization represented by logarithm function of market capitalization (LOGMCAP).

On the other hand, Yermack (1995) and Gaver and Gaver (1993) noted that larger companies had more difficulty in monitoring the managers. The agency costs increase as the size of a company increases (Jensen & Meckling, 1976). Larger companies can be less efficient than smaller ones because of the loss of control by top management over strategic and operational activities within the company (Himmelberg et al., 1999; Sarkar & Sarkar, 2000). Lang and Stulz (1994) suggested that company value decreases as it becomes larger and more diversified. Large size does not ensure benefits of scale. Size only provides an opportunity for economies of scale and may not be achieved without adequate strategies and actions (Abell & Hammond, 1979). Akhavein, Berger, and Humphrey (1997) and Berger and Humphrey (1992) revealed that challenges such as coordination, motivation and conflicts of interest are bigger in large companies. Therefore, there is a negative relationship between company size and company value (Li, Lam, Qian, & Fang, 2006). This could be the result of a number of factors such as lack of focus or a lesser degree of transparency in managerial actions. Capon, Farley, and

Hoenig (1990) performed a meta-analysis of 320 published studies and found that size appeared to be unrelated to financial performance. They also found some evidence supporting a positive relationship when size is measured by industry-level sales.

9. Methodology

This study used secondary data which come from the annual reports of listed companies on the IDX from the end of 1996 to 2005 financial years. Based on the purposive sampling, 215 company-year observations were selected with a set of criteria as follows: (1) non-financial companies, (2) the availability of financial statements during the analysis period which included earning before interest and taxes, earning after taxes, sales, total assets, and the number of business segments. This study employs regression model with company value (market to book value ratio—MBVR) as a dependent variable. The independent variables included ownership structure (insider ownership, institutional ownership, foreign ownership and shareholder dispersion), diversification of business (HI_Sales, HI_Assets and NoSegment), and company size (LnAssets and LnSales). Therefore, this study has nine independent variables. Measurement of each variable is described in Table 1.

Table 1: Variables in This Study and Their Measurement

Variable	Description
C o m p a n y value (MBVR _{it})	Company value is measured by market to book value ratio (MBVR). Market to book value ratio company <i>i</i> at year <i>t</i> ; ratio between market value and book value
B u s i n e s s Diversification	Business diversification is represented by Herfindahl index by sales, Herfindahl index by total assets, and the number of business segments.
HI_Sales	Herfindahl index by sales is sum of squared value of sales per segment as a fraction of company sales (Lang & Stultz, 1994), value 1 indicates undiversified company and value is close to zero, it shows diversified company.
HI_Assets	Herfindahl index by total assets is sum of squared value of assets per segment as a fraction of company assets (Lang & Stultz, 1994), value 1 indicates undiversified company and value is close to zero, it shows diversified company.
NoSegment	Segment is the number of business segments of company (Berger & Ofek, 1995; Chen & Ho, 2000; Denis et al., 1997; Lang & Stultz, 1994).
Company size	Company size is manifested by the natural log of total assets and the natural log of sales.
LnAssets	LnAssets is the natural log of total assets (Li et al., 2006; mitton, 2002; Serrano-Cinca et al., 2007)
LnSales	LnSales is measured as the natural log of sales (Kumar, 2005; Mitton, 2002; Titman & Wessel, 1988)
e	Error

The regression model of this study was formulated as follows:

$$\text{MBVR} = c_0 + c_1 \text{Insdr} + c_2 \text{Inst} + c_3 \text{Forg} + c_4 \text{SDP} + c_5 \text{HISales} + c_6 \text{HIAssets} + c_7 \text{NoSegment} + c_8 \text{LnAssets} + c_9 \text{LnSales} + \text{Res3}$$

SPSS 17 was used to analyse the data. Multivariate outliers were assessed by Mahalanobis distance (less than 34.528, $p < 0.001$) and normality data were tested (skewness divided by the standard error is less than 2.58, $p < 0.001$), both were conducted before the main analysis was run (Tabachnick & Fidell, 2007). Five outlier cases were excluded; hence the final data become 210 company-year observations. The variables with non-normally distribution were transformed through squared root (sqrt/sq/rsq) and natural log (Ln) depending on the severity of skewness (Manning & Munro, 2004) in order to achieve

the normality assumption. If data transformation caused other problems such as missing values, they were replaced by their mean.

Although more than one proxy measure of the same variable (i.e., company size and business diversification) were simultaneously included in the regression models, there was no multicollinearity problem in this study as indicated by Pearson correlations among the variables which were less than 0.8 (Gujarati, 1995), variance inflation factor that was less than 10 and tolerance statistic that was more than 0.10 but less than 1 (Hair et al., 2006).

10. Results of Analyses

There were 210 company-year case data during the period of analysis from 1996 to 2005. Based on descriptive statistics was described in Tabel 2, the mean of insider ownership in companies listed on IDX ranged from 5.89% to a maximum value of 38.52%. Institutional ownership was quite excessive with a mean value of 42.51% while foreign investors in companies listed on IDX were also quite large with an average value of 20.25%. This study also provided evidence that the mean value of proportion of shares held by the public was 28.82% with minimum and maximum values of 0.76% and 89.56%, respectively. It implied that the standard deviation of public ownership in IDX was rather large (15.30%).

Table 2: Descriptive Statistics for Sample Data 1996-2005 (N =210)

	Minimum	Maximum	Mean	Standard deviation
Insdr	0.0001	0.3852	0.0589	0.0842
Inst	0.0053	0.8776	0.4251	0.2026
Forg	0.0004	0.7923	0.2025	0.1678
SDP	0.0076	0.8959	0.2882	0.1530
HI_Sales	0.2694	1.0000	0.7765	0.2203
HI_Assets	0.2566	1.0000	0.7412	0.2385
No_segment	1	7	2.69	1.399
Assets (Million IDR)	20,481	33,010,417	1,777,218	3,813,669
Sales (Million IDR)	447	30,685,033	1,096,102	3,433,478
MVE (Million IDR)	4,350	32,178,900	921,333	3,437,427
ROE	-11.8394	16.8797	0.0811	1.7669
ROA	-0.3148	0.4755	0.0555	0.0988
MBVR	0.1228	5.2628	1.223	0.8016

Note: SD: Standard Deviation; IDR: Indonesian Rupiah

The results obtained through descriptive statistical analysis showed that companies listed on IDX tend to diversify their business. It was indicated by the average of Herfindahl index by sales, Herfindahl index by total assets, and the number of business segments which were 0.77, 0.74 and 2.69, respectively. Moreover, companies listed on IDX had total assets, sales and MVE with respective mean values of IDR 1,777,218, IDR 1,096,102 and IDR 921,333 (in million). The ability of companies listed on IDX to generate return was quite good with average ROE, ROA and MBVR being 8.11%, 5.55% and 1.22 respectively.

In terms of correlation among the variables of interest, Pearson correlations showed that the highest value was 0.73 (the natural log of sales and the natural log of assets) and the lowest was 0.03 (Herfindahl index by sales and shareholder dispersion). All correlations were less than 0.80. Based on variance inflation factor and tolerance statistics, it was assumed that there was no multicollinearity

This study finds that insider ownership, institutional ownership, and shareholder dispersion did not affect MBVR. The insignificant result of insider ownership, institutional ownership, and shareholder dispersion is inconsistent with the studies of Agrawal and Knober (1996), Agrawal and Mandelker (1987), Baysinger and Hokisson (1990), Chibber and Majumdar (1989, 1998), Cui and Mak (2002), Khanna and Palepu (1999), Kumar (2005), McConnel and Servaes (1990), and Morck et al. (1988). Nevertheless, foreign ownership ($a_3 = -0.22$, $t = -1.72$, $p = 0.08$) significantly determined MBVR at 0.10 level (two tails test). A more foreign ownership would result in a decrease in MBVR; hence, this showed that a foreign investor might not be able to become an effective monitoring agent in increasing of company value. Normally, foreign investors were associated with having large capital, experiences and expertise to manage a company. However, this was not proven for the companies listed on IDX. Foreign investors were not effective monitoring agents. This result could not support the efficient monitoring hypothesis (Pound, 1988), which stated that foreign investors had a positive impact on company value. Similarly, with the negative sign, the conflict of interests and strategic alignment hypothesis (Pound, 1988) could not be supported in the context of Indonesia. The regression results are shown in Table 3.

Table 3: Result of Regression Model

	Standardized Coefficients		T	Sig.
	B	Std. Error		
Insdr_Ln	0.090	0.022	0.112	0.911
Inst	-0.066	0.374	-0.479	0.632
Forg_sqrt	-0.225	0.402	-1.725	0.086*
SDP_sqrt	-0.082	0.458	-0.669	0.504
HISales_sq	-0.027	0.477	-0.316	0.752
HI_Assets	-0.098	0.218	-1.052	0.294
NoSegment_sqrt	-0.007	0.122	-0.070	0.944
LnAssets	-0.329	0.040	-3.314	0.001***
LnSales_sq	-0.568	0.151	-5.888	0.000***

F value = 5.140, p value = 0.000; Adjusted $R^2 = 0.150$

* Significant at $\alpha = 0.10$; ** Significant at $\alpha = 0.05$; *** Significant at $\alpha = 0.01$

Additionally, Herfindahl index by sales ($a_5 = -0.02$, $t = -0.36$, $p = 0.75$) Herfindahl index by assets ($a_6 = -0.09$, $t = -1.05$, $p = 0.29$) and the number of segments ($a_7 = -0.01$, $t = -0.07$, $p = 0.94$) were not statistically related to MBVR since their probability values were more than 0.05 level. This indicates that diversification of business was not a determinant of company value in IDX as measured by MBVR. Internal capital market as suggested by Lins and Servaes (2002) could not be supported. Moreover, evidence from the developed capital markets that diversification of business could increase company value (Santalo & Becerra, 2008; Scharfstein & Stein, 1996; Stein, 1997; Weston, 1970; Williamson, 1970, 1985) might not be true in IDX. This result could not support the works of Khanna and Palepu (1997), Santalo and Becerra (2008), Scharfstein and Stein (1996), Stein (1997), Weston (1970), and Williamson (1970, 1975, 1985), who found that diversification of business in emerging capital market significantly contributes to company value.

Additionally, the natural log of total assets and the natural log of sales had significant effect on MBVR with their respective coefficients $a_8 = -0.32$, $t = -3.314$, $p = 0.00$ and $a_9 = -0.56$, $t = -0.62$, $p = 0.00$. The negative signs indicated that managers probably acted based on their own interest by enlarging company to pursue high salary and other perquisites. Because the managers could not realign their own

interests with shareholders interests, consequently agency conflict and agency costs would increase, which in turn affect company value. This result do not support the studies of Chen and Ho (2000), Kumar (2005), Mickelson et al. (1997), and Serrano-Cinca et al. (2007).

Nevertheless, taken collectively, the independent variables have a significant effect on the MBVR at 0.01 level with F -value of 5.140 and adjusted R square of 0.15. Fifteen percent of the variation in MBVR could be explained by ownership structure, diversification of business and company size; and the remaining 85% could be explained by other variables which were not included in this study.

In summary, the regression results show that size and foreign ownership remain to be significant variables for MBVR regression model while some proxies of ownership structure and diversification of business could not contribute significantly to company value.

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