RAJAWALI PERS

Performance and Agency Conflict in Managerial Decision

Ownership Structure, Diversification and Size

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DEDICATION

This book is dedicated to
my beloved husband, Ir. Eka Maizuhardi, M.M., IPM., AE.
and my beloved daughter, Gombang Suri

FOREWORD

Alhamdulillahi rabbil 'alamain, the author's sincere praises and gratitude are submitted to Allah Swt. the Almighty, for giving her intellectual capacity to finish writing the book entitled ***"Performance and Agency Conflict in Managerial Decision: Ownership Structure, Diversification and Size"***.

Good company performance is required to run a successful business; however, it is not an east task. Many factors may become obstacles to arrive at the desired performance, such as agency conflicts, ownership structure, business types, business sizes, etc. Therefore, various mechanisms are needed to make the company performance well maintained. The purpose of writing this book is to present some factors that can hinder the company performance as well as some possible solutions to overcome such obstacles. The contents of the book are derived from reading the research reports on the relevant topic and the author's own research reports.

The author hopes that this book can be a reference for entrepreneurs and general readers in defining the mechanisms to reduce agency conflicts and improve the company performance. In addition, as this book is concentrated on the field of Financial Management, it can be used as the reference in managing company finances.

The author would like to express her gratitude to all those who have contributed in the publication of this book. The author welcomes all suggestions for the improvement of the contents of this book.

The Author

Erni Masdupi

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COMPANY PERFORMANCE

A. Company Definition Revisited

The definition of the word "company" has developed since it was first recorded in 1150. The first ever recorded meaning of the word company includes society, friendship, intimacy, or body of soldiers, originated from Old French word "compagnie". The meaning of the word company was developed into a sense of business association in 1553, the sense of meaning which continues to date. One of the current definitions of the word company is a business organization selling goods or services, especially one that has been officially created (registered) in a particular country and is owned by shareholders (Parkinson & Noble, 2005). This definition leads to the idea that a company is an organization in which people work together in order to achieve a certain common goal. As Sahu (2012) argues that a company is "a group of persons who have come together or who have contributed money for some common purpose".

General definitions of company include the word "artificial" as Chief Justice Marshall defined a company as an artificial person whose existence is only in contemplation of the law (Wolfe, 2017). The word "artificial" is used to refer to "invisible" and "intangible" because a company is created and torn down by law. The use of the word "artificial" suggests that the existence of a company is entirely dependent on the available laws and regulations. In other words, a company is an organization protected by law, or a legal entity. In Indonesia, a company is regulated under Law Number 3 of 1982 concerning compulsory company registration. A company is defined as a business entity in the territory of the Unitary State of the Republic of Indonesia which is established and operated with the aim of generating profits.

A company is a profit-oriented organization, whose profits are shared to the persons who have contributed their money for the company's capital. Lord Justice Lindley defines a company as "an association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business" (Sahu, 2012, p. 2). Therefore, the profit and loss that arise from the company activities are shared among them, who are also called members of a company. The profit shared depends on the proportion of capital each of the members has contributed. This is particularly important in the survival and sustainability of a company (Tasman, Masdupi, & Safitri, 2019).

Companies have an essential and active role in the people's economy, they are even called the centers of people's activities (Prabowo & Umami, 2018). As they are profit-oriented organizations, they run certain business activities, whose goals are to provide the necessity of the society. In addition, companies also help solve unemployment problems in a society by providing job vacancies. The more productive the company the more people it employs, and the more people in a society are employed the better the people's economy in that society will be. This role confirms the existence of a company as a social institution having duties and responsibilities towards the community in which it functions (Dielini, 2017).

From the elaborations above, it can be concluded that a company is a legal entity organization composed of several persons with the common goals who run certain business activities to provide necessities of the society. Besides, a company contributes to reduce the unemployment rate in a society. Thus, a company has a socio-economic responsibility.

B. Classification of Companies

Having defined the term "company", it is useful to consider different types of companies. According to Law Number 13 of 2003 Article 1

Paragraph 6, a company is any form of business (either a legal business entity or a business entity), owned by individuals, partnerships or owned by legal entities (both privately owned and state owned), which employs workers/laborers by paying wages. or other forms of compensation. This definition suggests that companies can be classified into several types motivated by different basis, including the company's forms of business, its ownership, its business activities.

1. Classification of Companies Based on Business Forms

Based on its forms of business, a company is classified into six types: one-person company, commanditaire vennootschap or better known as CV (limited partnership), limited company, cooperative, firm, and persero. **First,** as its name suggests, one-person company is a company that has only one person as its member or owner. It is a one shareholder corporate entity, where legal and financial liability is limited to the company only (Sahu, 2012). The company takes care of all financial affairs, production, marketing and other business activities on its own; therefore, the responsibility is entirely borne by the owner, the only person who owns all the capital and who makes strategic decisions. **Second,** CV or limited partnership consists of at least two persons: a managing partner or a complementary partner (responsible for running the business) and a limited partner (responsible for business's financial affairs) (Mulhadi, 2017). This idea is consistent with Emerson's (2004) view that CV is established by a person or several partners who are jointly and severally liable and one or more partners who act as money lenders.

Third, a limited company is a legal business entity, allowing it to have its own assets and liabilities (debt). A limited company is established to gain profits. According to Sahu (2012), a limited company limits the number of its members, restricts the right of transfer of shares, and prohibits any invitation to the public to subscribe for any shares or debentures of the company. Such limitations, restrictions, and prohibitions are done by using the company's articles of association. To establish a limited company requires a minimum of 2 people, and the company is required to have a notarial deed before registering and obtaining approval from the Ministry of Law and Human Rights. **Fourth,** a cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise (Henrÿ, 2012). This idea implies that a cooperative is democratic in nature, established to develop a proactive social responsibility (Amonarriz, Landart, & Cantin, 2016). They also argue that a cooperative is a type of company or enterprise that can survive during the economy crisis.

Fifth, a firm is a trade union between several companies. The word "firm" comes from the Dutch language, *vennootschap onder firma* (VOF), which means partnership in business. Unlike CV, a firm, according to Willem Molengraaff, is a partnership, association or union established to run a company under a common name and whose members are not limited to liability for the company's engagements with third parties (cited in Muhammad, 2002). Furthermore, Slagter (1996) argues that a firm is a cooperation agreement between two or more people with a common name to carry out the activities of a company, with the aim of obtaining benefits from mutual property rights. Slagter's definition clarifies that a firm is not only a trade union between companies, but also between individuals. Nevertheless, the most important idea in defining a firm is that it is established under one common name in running the company. Sixth, persero shares few similarities and differences with a limited company. Both persero and limited company are established to gain profits. However, unlike a limited company, part of persero's shares is controlled by the state. According to Kusmono and Margono (2018), persero is a state-owned enterprise in the form of a limited liability company whose capital is divided into all shares, or at least 51% (fifty-one percent) of the shares are owned by the state whose main goal is to obtain profits.

2. Classification of Companies Based on Business Activities

Furthermore, based on their business activities, companies are divided into five types; extractive company, industrial or manufacturing company, agricultural company, service company, and trading company. **First**, an extractive company is a company whose activities directly take and utilize the results of natural resources. According to Sigam and Garcia (2012), the activities of extractive companies are extracting raw materials from the earth, such as oil, metals, mineral and aggregates.

Their idea emphasizes on mining which, in fact, is one of the focused activities in an extractive company. As a matter of fact, the activities of an extractive company include extracting both animated and non-animated sources, although mineral and carbon-fuel extracting companies are among the world's largest and most profitable companies (Lehmann, 2015). In general, for natural resource rich countries, extractive companies account for more than 50% of the nation's gross domestic product. In addition, extractive companies play a major role in the economic landscape of many developing countries. Wise and Shtylla (2007) reported that an extractive industry contributes 20% of the country's gross domestic product (GDP) and 65% of its budgetary revenues.

Second, an industrial or manufacturing company is a company engaged in the production of capital goods which, in turn, is generally used in either manufacturing or construction. This type of company is engaged in processing raw materials into semi-finished or finished goods that can be sold to consumers. Industrial or manufacturing company is one of the important sectors in the economic development of a country because its contribution to the achievement of national economic development targets is very large and its ability to increase added values is high (Winardi et al., 2017). In addition, manufacturing companies play an essential role in the national economy because they are one of the largest and most active companies listed in the Indonesia Stock Exchange (IDX) and consist of several sectors (Sari & Masdupi, 2021).

Third, agricultural company is a company engaged in natural resource management. The term "agribusiness" is frequently used to describe the activities taking place in this type of company. Agribusiness can be defined as all business and management activities performed by firms that provide inputs to the farm sector, produce farm products, and/or process, transport, finance, handle or market farm products (Downey & Erickson, 1987). In addition, agribusiness also includes manufacturing and distributing farm supplies to the production agriculturist and the storage, processing, marketing, transporting, and distributing agricultural materials and consumer products that were produced by production agriculturalists (Ricketts & Ricketts, 2009). Furthermore, agribusiness refers to agriculturally related businesses including warehouses, wholesalers, processors, retailers and more (Chait in Van Fleet, 2017). The latest definition of agribusiness can be used to define an agricultural company as a company whose all activities are related to agriculturally related businesses.

Fourth, as its name suggests, a service company is a company whose activities are engaged in providing services to public, such as banks, insurance companies, transportation companies, translation service providers, and so forth. Service can be simply defined as "a non-tangible opposite of a tangible product" (Wood, 2010). This definition is proposed by distinguishing services from goods. Using such a comparison is one the good decisions to define certain terms. There are some reasons that motivate the establishment of a service company, including global economic change, ICT-enablement or technology change, outsourcing, business model change, people's living place, people's age, the nature of family life, higher education level, dependence on universities, and dependence on non-profit organizations (Spohrer et al., 2011). Thus, the main business activity of a service company is providing various kinds of services to public.

Fifth, a trading company is a company whose activities deal with trading or selling. According to Wibowo and Arif (2005), a trading company is a company that purchases goods for the purpose of reselling them without significantly changing their shape or characteristics. In other words, this type of company does not have any production activities.

3. Classification of Companies Based on Business Size

Size is usually associated with measurement, i.e., small, medium, large. In the context of a company size, such measurements can be carried out in several methods namely through sales, employees, assets or added value features (Zadeh & Eskandari, 2012). In addition, Nasrudin (2022) argues that assets, revenue, production, market capitalization, number of employees, and capital invested are indicators to measure a company size. A company asset can be simply interpreted as anything that provides a current, future, or potential economic benefit for a company, which can be both tangible and intangible. Tangible assets, also called tangible resources, are assets that can be physically manifested by using the five senses, such as houses, buildings, property, employees and so

forth. Meanwhile, intangible assets or intangible resources are assets whose manifestations are not physically tangible, i.e., they cannot be touched, seen, or physically measured, but can be identified as separate assets which provide benefits and have certain economic values as the result of a business process, such as customer satisfaction, customer loyalty, license, intellectual capital, patent, and brand (Sugiama, 2013).

A company revenue is the amount of money received by a company from its business activities. Nasrudin (2022) argues that a company revenue is how much money is made by a company from selling goods or providing services. Revenue is considered as one of indicators of a company size because the higher the revenue is received the larger the company will be. The other indicator is production, i.e., how much volume of output is produced. This indicator is particularly used to measure the size of manufacturing companies. Therefore, this indicator is irrelevant for service businesses because their output cannot be quantified as for manufacturing companies. Furthermore, market capitalization serves as the indicator of company size as it is the total value of the shares issued by the company. Several studies found that the macroeconomic environment has an important effect on the stock market capitalization rate (Kurihara, 2006; Odogunde et al., 2006). This shows that market capitalization can determine the size of a company.

The other indicator of company size measurement is the number of employees, i.e., the more employees are employed by a company the larger the company is. Besides, employees are also considered as the company assets. The last indicator of company size measurement is the amount of invested capital, i.e., how much capital is owned by the company.

Nevertheless, the number of employees and revenues are considered as the main indicators of company size measurement. Kaen and Baumann (2003) argue that measuring the employee enrolment and added value measurement are a better choice in measuring the size of a company in organizational theories rather than sales or assets. In Indonesia, for example, the Central Statistics Agency categorizes a company size based on the number of workers employed. **First,** a micro-sized company is a company that employs one to four workers. **Second,** a company is called a small-sized company when it employs five to nineteen workers. **Third,** a company that employs twenty to ninety nine workers is categorized as a medium-sized company. **Fourth**, a company that employs more than a hundred workers is categorized as a large-sized company (https://www.bps.go.id/istilah/index.html?Istilah_sort=deskripsi_ind.desc&Istilah_page=53). The exact number of workers in this sense may vary in other countries.

Furthermore, the European Commission uses the number of employees and company's turnover as the indicators of company size measurement. **First**, a micro-sized company is a company that employs fewer than 10 workers and has an annual turnover of no more than €2 million. **Second**, a company is called a small-sized company when it employs fewer than 50 workers and has an annual turnover of no more than €10 million. **Third**, a company that employs fewer than 250 workers and has an annual turnover of no more than €50 million is categorized as a medium-sized company. **Fourth**, a company that employs 250 people or more and has an annual turnover of more than €50 million is categorized as a large-sized company (https://www.open.edu/openlearn/money-business/business-strategy-studies/different-types-business/content-section-2). In short, based on the business size, a company is classified into four categories: micro-sized company, small-sized company, medium-sized company, and large-sized company.

C. Company Performance

In its early introduction (during the 1950s), company performance was considered as the equivalent of organizational efficiency, representing the degree to which an organization, as a social system with some limited resources and means, achieves its goals without an excessive effort from its members (Taouab & Issor, 2019). There are some criteria used for assessing performance, including productivity, flexibility, and interorganizational tensions (Georgopoulos & Tannenbaum, 1957). In its development, company performance was defined as a company's ability to exploit its environment for accessing and using the limited resources (Yuchtman & Seashore, 1967). In this sense, company performance is synonymous with organizational effectiveness. In the last decades of nineteenth century, company performance was defined as a concept of success or effectiveness of a company to achieve its goals successfully (Cherrington, 1989), an action or behavior to get

an effective result (Bourguignon, 1997), and an effort performed by a company to keep the demands of its stakeholders satisfied (Harrison & Freeman, 1999).

The term "effectiveness" is the key word that keeps being used in the latest definitions of company performance, and is considered as one of the factors that drive company performance. Verboncu and Zalman (2005) argues that company performance is a particular result obtained in management, economics, and marketing that gives characteristics of competitiveness, efficiency, and effectiveness to the organization and its structural and procedural components, as illustrated in Figure 1.1.

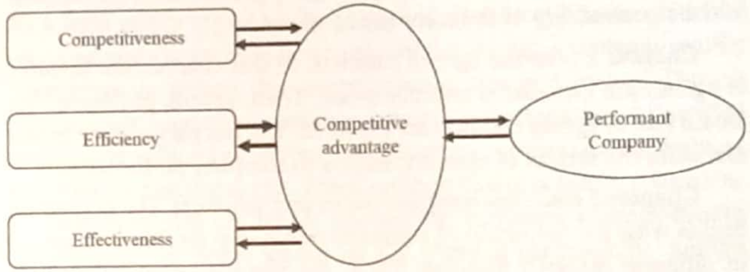

Figure 1.1 Factors that drive company performance

(Verboncu & Zalman, 2005)

The information in Figure 1.1 shows that a company performance implies efforts which are competitive, efficient, and effective. Such performance obviously needs a systematic evaluation which guarantees an expected result. This is in line with the idea proposed by Bartoli and Blatrix (2015) who believe that company performance should be achieved through items such as piloting, evaluation, efficiency, effectiveness, and quality.

In general, a performance in relation to a business is understood as the results of activities of an organization or investment over a given period of time. It refers to the accomplishment of a given task measured against pre-set known standards of accuracy, completeness, cost, and speed (Bierbusse & Siesfeld, 1997). Therefore, a company performance is a characteristic of the degree to which the company is able to achieve for a certain period positive results compared with the results of others. An efficient company, therefore, is better in fulfilling long-term business a positive and significant effect on company performance, while few other studies did not. The factor that makes their findings is the country where the studies were conducted, whether in developed, developing, or under-developed countries. The results of their study then imply that diversification is a good choice if it is done after doing a market survey.

6

COMPANY SIZE

A. Defining Company Size

Company size had an ambiguous effect on company performance (Kumar, 2005) because it can either increase or decrease company performance. 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 (Gupta, 1969; Lang & Stultz, 1994; Driffield et al., 2007). 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 performance (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-sized companies. Therefore, there is a negative relationship between company size and company performance (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.

B. Classification of Company Size

Company size is generally categorized as micro-sized, small-sized, medium-sized, or large-sized companies. Such classification has been confirmed in most of all literature; however, the question arises is "What are the parameters or criteria to classify companies into those types?". Chapter 1 has partly discussed the classification of a company based on its size. In this chapter, the classification of company size is further elaborated.

1. Micro-sized Company

The classification of a company into micro-sized, small-sized, medium-sized, or large-sized companies can be done both quantitatively and qualitatively. Nevertheless, quantitative criteria precede the evaluation of different classes of companies. The quantitative criteria are company scale assessments that may concern expenditures (the number of employees, capital, and assets) or effects (turnover, value added, and market share). Meanwhile, the quality criteria concern economic and legal abilities of the enterprise owner, such as independence, ownership form, organizational and/or management structure (Skowronek-Mielczarek, 2005; Raczyńska, 2019).

In terms of employment, a micro-sized company is a company that hires less than 10 employees (Dumitru & Neluta, 2017). This criterion has been internationally agreed. However, exceeding the employment threshold or the financial ceiling during the year, which is taken into account, does not affect the status. The change of status takes place only if in the next two years the same phenomenon repeats (Czekański & Gajek, 2015). In terms of capital, different countries apply different policies. In Indonesia, for example, a micro-sized company has a capital of less than IDR 1,000,000,000 (about US$ 67,000) (Government Regulation of the Republic of Indonesia No. 7 of 2021). In the USA, some micro-sixed companies have a capital of less than US$ 35,000. Some other countries do not mention the amount of money required to run a micro-business. In terms of assets, a micro-sized company has assets of not more than IDR 50,000,000 (about US$ 3,300) in total (Indonesian Banking Development Institute, 2015). Meanwhile in India, the total investment of a micro-sized company can be up to US$ 31,500 (in a manufacturing sector) and US$ 12,500 (in a service sector) (Pachouri & Sharma, 2016).

Furthermore, in terms of business turnover, a micro-sized company has a yearly turnover of less than €2,000,000 (US$ 2,010,640) (Dumitru & Neluta, 2017). Next, the value-added of a micro-sized company varies depending on the country where it is located. In France, for example, the value added is €181,053 million, while in Finland, the value added is €20,675 (Clark, 2021).

Moreover, based on the qualitative assessment, the characteristics of a micro-sized company are: (1) The types of goods/commodities are not always fixed; (2) The place of business is not yet settled; (3) The company has not yet carried out simple financial administration; (4) The company does not separate family finances from business finances; (5) The human resources (owners or entrepreneurs) do not yet have an adequate entrepreneurial spirit; (6) The average level of education of the employees is relatively very low; (7) Generally, the companies do not have access to banking, but some have access to non-bank financial institutions; and (8) Generally the companies do not have a business license or other legal requirements (Indonesian Banking Development Institute, 2015).

There are at least three problems usually faced by micro-sized companies. The first one is securing small business financing. Micro-sized companies operate on a small scale financially; therefore, lenders tend to view these tiny operations as less stable and simply less able to handle debt than larger companies. The second one is difficulties in attracting potential customers. Micro-sized companies operate on smaller scales than small-sized companies on every level, including their reach and the scope of their customer base. That might put them at a competitive disadvantage to small businesses that have the funds, network and resources for fuller-scaled marketing campaigns. The third one is difficulties in handling several jobs at once. Though micro-size companies can have up to 10 employees including the owner, many of them are actually owned and operated by a single person. In some cases, micro-sized companies remain "micro" because they lack the funds to hire more employees and obtain other resources (Lauckner & Ramirez, 2022).

2. Small-sized Company

According to Article 1 paragraph 3 of Government Regulation of the Republic of Indonesia No. 7 of 2021, a small-sized company is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries, or branches of companies that are owned, controlled, or become part of either directly or indirectly from medium- or large-sized companies. This indicates that a small-sized company is a company by itself; it is not a subsidiary of another company. Nevertheless, it can be part of other larger companies.

Small-sized companies are quantitatively defined as those hiring less than 50 employees (Dumitru & Neluta, 2017). However, the number of employment varies in different countries. In Indonesia, for example, a small-sized company is characterized by employing less than 30 employees (Indonesian Banking Development Institute, 2015). In terms of capital, the Indonesian government has stipulated that the capital of small-sized companies should be more than IDR 1,000,000,000 (about US$ 67,000) but less than IDR 5,000,000,000 (about US$ 333,700). Such amount of money excludes the place to run the business and other auxiliaries. In terms of assets, small-sized companies should have an asset of more than IDR 50,000,000 (about US$ 3,300) but less than IDR 500,000,000 (US$ 33,400) (Indonesian Banking Development Institute, 2015). Nevertheless, these statistics are certainly different when applied in other countries.

Furthermore, in terms of business turnover, a small-sized company has a yearly turnover of not more than €10,000,000 (US$ 10,039,650) (Dumitru & Neluta, 2017). This amount is much higher than the yearly turnover of small-sized companies in Indonesia, i.e., around US$ 166,850.

Moreover, qualitatively, small-sized companies are characterized based on the following characteristics: (1) The types of goods/commodities are generally fixed; (2) The location/place of business is generally settled: (3) In general, the companies have done simple financial administration; (4) Company finances have begun to be separated from family finances; (5) The company has made a business balance; (6) The company already has a business license and other legal requirements; (7) The human resources (entrepreneurs or owners) have experience in entrepreneurship; (8) Some have access to banking for capital purposes; and (9) Most of them have not been able to make good business management, such as business planning (Indonesian Banking Development Institute, 2015). These characteristics are helpful to clearly distinguish a small-sized company from a micro-sized company.

3. Medium-sized Company

As its name suggests, a medium-sized company is a company which has a larger scale than micro- and small-sized companies. Quantitatively, medium-sized companies hire not more than 250 employees with the annual turnover of less than €50,000,000 (US$ 50,165,000) (Dumitru & Neluta, 2017). In terms of capital, the Indonesian government has stipulated that the capital of small-sized companies should be more than IDR 5,000,000,000 (about US$ 333,700) but less than IDR 10,000,000,000 (about US$ 667,340), excluding the place to run the business and other auxiliaries. Furthermore, medium-sized companies in Indonesia have an asset of more than IDR 500,000,000, (about US$ 33,400) but less than IDR 10,000,000,000 (about US$ 667,340). Meanwhile, in terms of annual turnover, medium-sized companies in Indonesia have an annual turnover up to IDR 50,000,000,000 (about US$ 3,336,670) (Indonesian Banking Development Institute, 2015), but the amount is still much lower than the turnover of medium-sized companies in Europe.

Qualitatively, medium-sized companies are characterized based on the following characteristics: (1) The company has a better management and organization, with a clear division of tasks, among others, the finance department, the marketing department, and the production department; (2) The company has carried out financial management by implementing an accounting system on a regular basis to make it easier for auditing and assessment or inspection, including by banks; (3) The company has carried out labor regulations or management and organization; (4) The company already has legal requirements, including neighbor permits; (5) The company already has access to banking funding sources; and (6) In general, the company has trained and educated its human resources. These characteristics show that a medium-sized company has already been an established business entity.

4. Large-sized Company

Unlike micro-, small-, medium-sized companies or enterprises (MSMEs), a large-size company is much more established. With an asset of more than IDR 10,000,000,000 (about US$ 667,340), a large-sized company can do various business activities. Its annual turnover can reach more than IDR 50,000,000,000 (US$ 3,336,670). In addition, a large-sized company typically employs more than 500 employees.

A large-sized company is characterized by having a good management and organization, and the tasks have been clearly defined. The best advantage of being a large-sized company is increasing the business capital more easily. Banks usually have greater trust in providing debts to large-sized companies than other smaller companies. By having larger amount of capital, large-sized companies can get involved in "big" projects.

In addition, in terms of ownership, since a large-sized company has such a big capital, there is a tendency that large-sized companies have "more concentrated ownership" (Masdupi, 2014). This refers to the works done by Shleifer and Vishny (1989) and Anderson and Reeb (2003) who argue that concentrated shareholders are quite common. They found that more than 77 percent of the Fortune 500 companies have at least one shareholder owning five percent or more of the company shares. In addition, Masdupi (2014) adds that in large-size companies listed in IDX, shareholders own company shares at least 5.8 percent.

C. Impacts of Company Size to Company Performance

Larger companies may operate more efficiently through benefits of economies of scale, and use of more skilled managers, which can lead to better performance. Moreover, larger companies are established companies and they have easy access to capital markets with lower transaction costs as compared to smaller companies. They may have better knowledge of markets and enable greater specialization. Larger companies would also measure a company's market power or the level of concentration in the industry. Some studies found that company size influences company performance positively (Gupta, 1969; Lang & Stultz, 1994).

However, large companies could be less efficient than smaller ones because of the loss of control by top managers over strategic and operational activities (Himmelberg et al., 1999; Williamson, 1970). As Jensen (1986) noted, professional managers of a company (who are not the owners) derive personal benefits from expanding beyond the optimal size of the company by their desire to have, among other things, power and status. This may cause lower company efficiency and reduce company performance. In addition, a larger company is also related to high agency costs. Shareholders face some difficulties in monitoring managers in larger companies and hence the benefit of economies of scale may not be reaped. In this sense, company size has a negative effect on company performance (Li et al., 2006).

Many studies have confirmed the size of a company is one of the important variables in the management of the company because it becomes one of the determinants in obtaining funds from investors (Kumar, 2005; Chakrabarti et al. 2007; Serrano-Cinca et al., 2007; Ming & Gee, 2008; Wright et al., 2009; Calisir et al., 2010; Fujianti, 2018). In addition, the larger size of the company shows the higher level of the company's competitiveness which, therefore, gains a positive response from investors. Calisir et al. (2010) found a positive effect of company size on the company performance in the information and communication technology sectors in Turkey. The same finding has been confirmed by Wright et al. (2009) who found that company size has a positive effect on the company performance. These findings suggests that larger companies promise better performance than smaller firms.

Furthermore, Pervan and Visic (2012) found a weak positive effect of company size on the company performance in Croatia. They argued that such a positive impact is motivated by several factors. **First,** because of their market power, larger companies are able to charge higher prices and hence earn higher profits. **Second,** higher profits could also be the result of economies of scale and stronger negotiating power that provides larger companies more favourable financing conditions. Moreover, Vu Hung, Phi Vinh, and Dang Thai (2021) found that the company size has a significant effect on the performance of Vietnamese private companies with different levels. Among the variables of company size (employment, capital, asset, turnover, value added, and market

share), total assets serve the biggest factor determining the performance of Vietnamese private companies.

In contrast, Amato and Burson (2007), who examined size-profit relationship for companies operating in the financial services sector, found that company size has negative effects on company performance, which eventually affects the company's profits. Nurulfajri (2018) also found that a company size has no effect on the company performance. She argues that the absence of the effect is motivated by the management's carelessness in managing the capital structure. In fact, the capital structure for the company is very important, especially for large-sized companies. The better the company manages its capital structure, the easier the company meets its obligations (debt-equity ratio), which will ultimately affect the company performance positively. These findings support the previous literature that, although a larger company is usually supported by skilled employees, it can lead to high agency costs, which can affect the company performance.

D. Summary

Company size is generally categorized as micro-sized, small-sized, medium-sized, or large-sized companies. They are measured based on both quantitative and qualitative criteria. Quantitative criteria are preferred for their simple measurement. For example, the size of a company can be measured based on the number of employees hired by a company: less than 10 employees (micro-sized company), less than 50 employees (small-sized company), less than 250 employees (micro-sized company), and more than 500 employees (large-sized company). Nevertheless, other quantitative criteria, such as capital, asset, annual turnover, market share, should also take into account. Many previous research findings reported that company size had an effect on the company performance. One of the fundamental factors is "trust" as they obtain higher level of trust from investors. In addition, more consumers tend to do interactions in large-sized as they assume that large-size companies generally have complete stock of goods with trustworthy brands.

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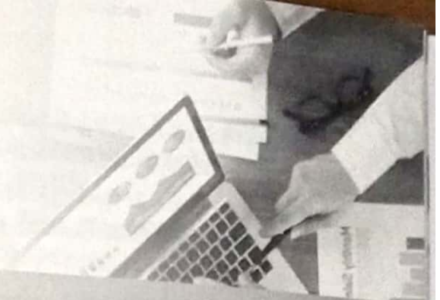

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GLOSSARY

Added value: An increase in the value of a resource, product, or service as the result of a particular process

Agency cost: A type of internal company expense, which comes from the actions of an agent acting on behalf of a principal

Asset: A resource with economic value that a company owns and controls with the expectation that it will provide a future benefit

Board of directors: The governing body of a company, elected by shareholders to set strategy and oversee management

Capital: A critical component of running a business from day to day and financing its future growth

Capital market: A financial market in which long-term debt (over a year) or equity-backed securities are bought and sold

Cash balance: The amount of money a company has in its bank account at a particular time

Cash flow: The net amount of cash and cash equivalents being transferred in and out of a company

Company value: A set of principles that an organization creates in order to guide it to success

Cooperative: An association of persons (organization) that is owned and controlled by the people to meet their common economic, social, and/or cultural needs and aspirations through a jointly-owned and democratically controlled business (enterprise)

Common goal: A shared purpose.

Corporate governance: The structure of rules, practices, and processes used to direct and manage a company.

Creditor: An entity, a company, or a person of a legal nature that has provided goods, services, or a monetary loan to a debtor.

Debenture: A type of long-term business debt which is not secured by any collateral.

Debtholder: Any entity to which a company is obligated to repay for any outstanding indebtedness.

Diffused ownership: The condition where the majority of shares is owned by multiple, small shareholders.

Dividend: A distribution of earnings, often quarterly, by a company to its shareholders in the form of cash or stock reinvestment.

Effect: The result of a particular influence.

Financial leverage: The use of borrowed money (debt) to finance the purchase of assets with the expectation that the income or capital gain from the new asset will exceed the cost of borrowing.

GDP: The abbreviation of "gross domestic product", which refers to the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

Impact: A marked or strong effect/influence.

Insider owner: The owner who is working inside the company.

Legal entity: An organization that can enter into contracts and take part in legal action.

Manager: A person responsible for controlling or administering all or part of a company or similar organization.

Net present value: The difference between the present value of cash inflows and the present value of cash outflows over a period of time.

Outsider owner: The owner who works outside the company.

Owner: A person who owns a company.

Ownership: The legal relation between a person (individual, group, corporation, or government) and an object.

Ownership dispersion: The condition where no single investor owns enough stock to control a company.

Performance: Company's ability to exploit its environment for accessing and using the limited resources.

Principal: The owner of a company.

Profit: The remaining revenue after a company has accounted for all expenses.

Retailer: A person or business that sells goods to the public in relatively small quantities for use or consumption rather than for resale.

Revenue: The money generated from normal business operations, calculated as the average sales price times the number of units sold.

Shareholder: An individual or entity that holds shares or stocks in a company.

Share: A unit of ownership which represents an equal proportion of a company's capital.

Stock return: The calculation of percent rate of return over a measurement period.

Turnover: The total sales made by a business in a certain period. It is sometimes referred to as "gross revenue".

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ABOUT THE AUTHOR

Erni Masdupi, S.E., M.Si., Ph.D., CFP, an Associate Professor in Financial Management at Management Department of Universitas Negeri Padang, was born on April 24, 1974 in Payakumbuh. Currently she serves as the Head of the Master Program in Management and Doctoral Program in Management Sciences, Faculty of Economics, Universitas Negeri Padang.

She earned her bachelor degree in Economics (S.E.) from Universitas Andalas in 1997 with a Cum Laude predicate. Then, she earned her master's degree in Financial Management (M.Si.) from Universitas Gadjah Mada Yogyakarta in 2002 with a Cum Laude predicate. She earned her doctoral degree (Ph.D.) in the field of Financial Management from University of North Malaysia in 2010. In addition, she obtained a CFP (Certified Financial Planner) degree, an international certificate of competence, from MM UGM- FPSB Jakarta.

She gives lectures on financial management, risk management, financial management seminars, research methodology, and budgeting to undergraduate students in Universitas Negeri Padang. In addition, she also gives lectures on management to the students of Master's Program and Doctoral Program in Management in Universitas Negeri Padang. Since 1999, she has been conducting a number of studies on finances. Her research interest includes financial management, behavioral finance, and investment. She has presented and published her papers in some international conferences and journals. Her latest research explored the sustainability of SMEs in West Sumatra based on financial literacy and financial risk attitude.

Performance and Agency Conflict in Managerial Decision

Ownership Structure, Diversification and Size

In managing a business, entrepreneurs are required to maintain good company performance. However, various conditions experienced by their company sometimes hinder them from achieving the desired performance. The difference between the decision-making function (i.e., the agent/manager) and the risk-taking function (i.e., the owners of the company) may lead to a conflict between the agent and the owner. In the agency perspective, there is an inherent conflict of interest attached to the relationship between the agent (manager) and the owner of the company. This conflict can manifest in managerial decisions such as defining the ownership structure in the company, formulating the decisions about business diversification, and determining the company size. Consequently, a number of mechanisms are needed to reduce agency conflicts in order that the company's financial performance can be well maintained.

In the real world, many large profit organizations and non-profit organizations (including higher education institutions) have been successful in their fields, but have experienced significant shocks, the main cause of which is the conflict between the owner and the agent/manager. Considering the number of cases where the company performance was damaged due to the agency conflict is the reason motivating the author to write this book. The contents of the book are derived from reading the research reports on the relevant topic and the author's own research reports.

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