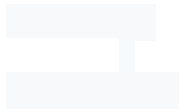


Identifying Ultimate Controlling Shareholders In Indonesian Public Companies: an Empirical Survey

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ARTICLE INFO	ABSTRACT
 <p>Keyword: <i>identification, ultimate ownership, controlling shareholder, family bussiness, public company.</i></p>	<p>This paper aims to identify the ultimate ownership of public companies that are listed on the Indonesia Stock Exchange (IDX) during 2014-2017 period. Identification techniques used in this study are: (1) tracking the ownership structure; (2) measuring the level of control; (3) determining the majority ownership, and (4) finding the ‘controlling shareholder’ narrative in the annual report. Based on tim research analyze, this paper found that the ultimate ownership of public companies in Indonesia 2014-2017 was concentrated in the ultimate family owners (54.43%), corporations (31.05%) and the state (7.49%). Beside it, 89.43% of families use the indirect ownership structure (pyramid ownership). In addition, more than 50% of the ultimate family ownership place their family members in the Board of Commissioner (BOC) and Board of Directors (BOD).</p>
<p>Corresponding Author: <i>zafah.udien@gmail.com</i></p>	<p>SARIPATI</p> <p>Makalah ini bertujuan untuk mengidentifikasi kepemilikan akhir perusahaan publik yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2014-2017. Teknik identifikasi yang digunakan dalam studi ini adalah: (1) melacak struktur kepemilikan; (2) mengukur tingkat kontrol; (3) menentukan kepemilikan mayoritas, dan (4) menemukan narasi ‘pemegang saham pengendali’ dalam laporan tahunan. Berdasarkan analisis penelitian tim, penelitian ini menemukan bahwa yang paling utama dalam kepemilikan perusahaan publik di Indonesia 2014-2017 adalah terkonsentrasi di pemilik keluarga (54,43%), korporasi (31,05%) dan negara (7,49%). Selain itu, 89,43% keluarga menggunakan struktur kepemilikan tidak langsung (kepemilikan piramida). Tambahan, lebih dari 50% kepemilikan keluarga utama menempatkan keluarga mereka sebagai anggota Dewan Komisaris dan Dewan Direksi (BOD).</p>

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Introduction

The main idea in this research is based on the argument that even shareholding in companies that have go public, especially in countries where protection of fairly weak minority shareholders, including Indonesia, tends to be concentrated in large shareholders (La Porta et al., 1999 ; Claessens et al., 2000; Faccio & Lang, 2002). Based on these arguments, this study seeks to identify who is the ultimate ownership of the intended ‘go public’ company. Understanding of ultimate shareholders is considered important because they are the beneficial owners who can control the running of the company, for example through the placement of selected people in the management and/or the Board of Commissioners. Legally the problem of the company’s beneficial ownership has actually been regulated in Presidential Regulation Number 13 of 2018. However, the reseach that tracking the ultimate ownership or the company’s beneficial ownership have so far not been carried out comprehensively.

Tracking for ultimate ownership of Indonesian public companies does not mean they have never been done before. Through the method of searching ownership structures, La Porta et al. (1999), Fan et al. (1999), Claessens et al. (2000), Siregar (2008) found similar conclusions that the majority of public company ownership was concentrated in the family as the ultimate ownership (with the control level cut-off of 10% -20%).

By realizing the lack of transparency in information related to the ultimate benefit ownerhip of public companies in Indonesia, especially in the terms identifying, the research team tried to use additional methods besides searching ownership structures and measuring level of control. These additional methods remain based on the keyword “control” which is the substance of ultimate ownership.

Methods

The main data source of this research is the Annual Report published by every public company in each year during 2014-2017 period. In this research, the keyword “control” is the basis of the identification method, because the ultimate ownership’s goal of controlling shareholdings is nothing but “controlling” the running of a public company. For a more detailed explanation and accompanied by an example of this can be seen below:

a. Tracking Ownership Structure

Tracking ownership structure is the general step to identifying the ultimate ownership of a public company. The ownership structure of public companies generally consists of two models: direct ownership and indirect ownership structure. In the terms direct ownership structure, an individual/family usually uses his own name directly and openly in owning a public company. Therefore, this direct ownership structure can be said to be the easiest model to identify.

(see Figure 1).

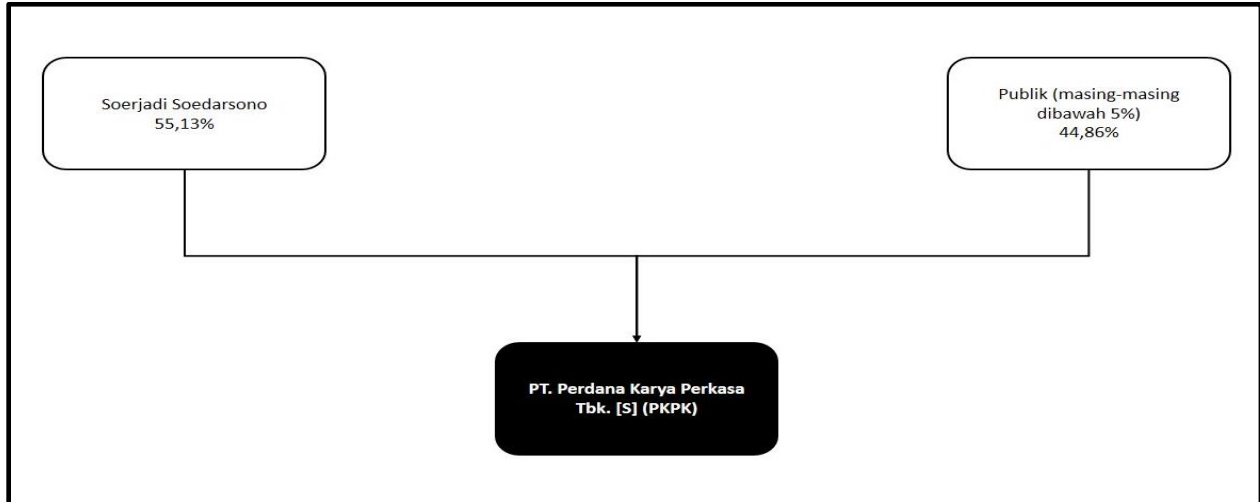


Figure 1. Direct Ownership Structure
Source: PKPK Annual Report, 2017.

In the terms indirect ownership structure (pyramid ownership), the ownership structure will look more complicated. To facilitate the explanation, an illustration can be obtained where PT A Tbk is owned by PT B, PT C, and PT D without the name of an individual/family as shareholders. Consequently, further searches must be conducted to find out who the owners of PT B, PT C, and PT D really are. In many cases, the owners of PT B, PT C, and PT D are the same individual/family. Under these conditions, mostly the researcher often refer to them as ultimate ownership (see Figure 2). However, not all pyramid ownership structure will lead to an individual/family name, such as a corporation or country.

(see Figure 3).

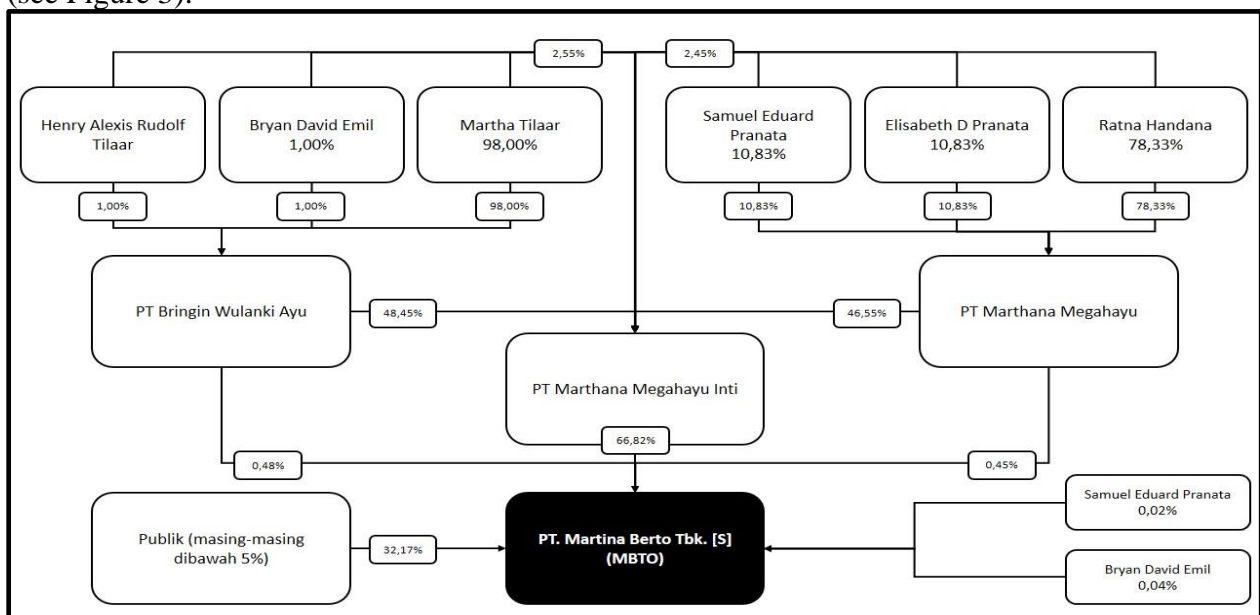


Figure 2. Pyramid Ownership Structure with the Family as the Ultimate Ownership.
Source: MBTO Annual Report, 2017.

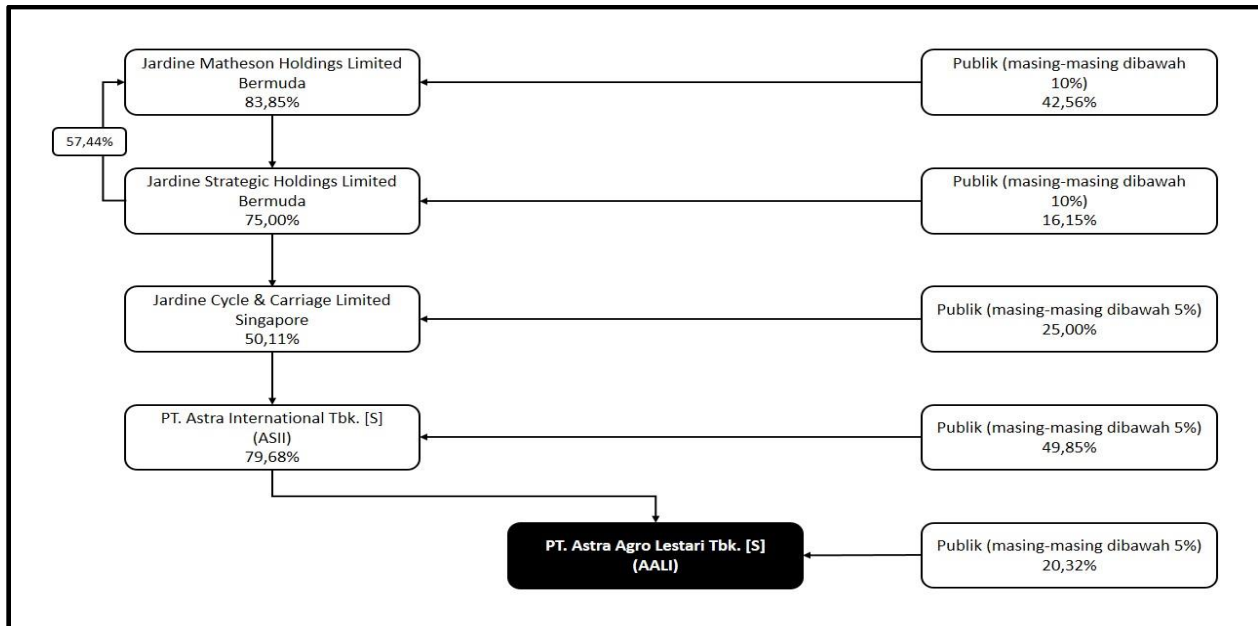


Figure 3. Pyramid Ownership Structure with the Unknown as The Ultimate Ownership.
Source: AALI Annual Report, 2017.

b. Measuring The Level of Control

The second step is measuring the level of ultimate ownership control in a public company through voting rights and cash-flow rights. Voting rights are the right of the company (or company ownership) to influence the decisions of its subsidiaries by voting and choosing the executives running company. Meanwhile, cash-flow rights are the rights of the company (or company ownership) to the profits obtained by its subsidiaries. The final calculation of voting rights is the sum between direct voting rights and indirect voting rights (La Porta et al. 1999). Direct voting rights are the percentage of shareholdings held by the controlling shareholder in his name on a company, while indirect voting rights are the sum of the minimum voting rights (weakest link) in each chain of ownership.

Just like voting rights, cash-flow rights also consist of the sum between direct cash-flow rights and indirect cash-flow rights. Direct cash-flow rights are the percentage of shares held by controlling shareholders in public companies on their own behalf. Meanwhile, indirect cash-flow rights are the sum of the results of multiplying the percentage of shares in each layer of ownership (La Porta et al. 1999). Through a mechanism of control on the company, this indirect cash-flow rights shows the claim of controlling shareholders to dividends indirectly.

If you see Figure 1, the amount of direct voting rights is 55.13% and indirect voting rights is 0.00%, so the amount of voting rights was $55.13\% + 0.00\% = 55.13\%$. Then, the amount of direct cash-flow rights is 55.13% and indirect cash-flow rights is 0.00%, so if added the direct and indirect cash-flow rights, the amount of cash-flow right is $55.13\% + 0.00\% = 55.13\%$. In the direct ownership structure, the amount of voting rights and cash-flow rights will always be the same because the ownership structure has a single ownership layer.

However, the different calculation techniques occur in indirect ownership. In the example of Figure 2, direct voting rights amounted to $0.04\% + 0.02\% = 0.06\%$, while indirect voting rights amounted to $66.82\% + 0.48\% + 0.45\% = 67.75\%$. So, the amount voting rights Martha Tilaar Family of PT. MBTO Tbk in 2017 amounted to $0.06\% + 67.75\% = 67.81\%$. Meanwhile, the calculation of direct cash-flow rights is $0.04\% + 0.02\% = 0.06\%$, the indirect cash-flow calculation is

$(1 * 48.45\% * 66.82\%) + (1 * 46.55\% * 46.55\%) + (1 * 0.48\%) + (1 * 0.45\%) + (2.55\% * 66.82\%) + (2.45\% * 66.82\%) = 58.31\%$. So, the total cash-flow rights The Martha Tilaar Family of PT MBTO Tbk in 2017 is $0.06\% + 58.31\% = 58.37\%$. From this measurement and calculation of voting rights and cash-flow rights, the researcher establish a cut-off policy to measure the minimum limit of ultimate ownership of an ultimate owner considered to have an effective level of control.

c. Determining The Majority Ownership.

In the previous research, the use of cut-off levels of control range at 10% or 20% (La Porta et. Al., 1999; Claessens et al., 2000; Siregar, 2008). It means that when the ultimate ownership has a 10% or 20% level of control (which uses voting rights or cash-flow rights), then he is considered to have an effective level of control. Contrary, if it only has a cut-off levels of control under 10%, then it is considered to be less effective. So when a statistical test is carried out, then the ultimate ownership data like this is eliminated automatically from data pooling.

Considering the aims of this research which is to discuss the ultimate ownership who controlled public companies, the discussions about cut-off levels of control is not used. In addition, many cases are often found which show the ultimate ownership has a level of control below 10%. To respond those cases, the research team made a decision by adopting the “majority” concept in public companies. Simultaneously, the ownership of other shares is spread into small pieces so that the ultimate owner remains the majority owner. So, if an ultimate ownership only has a small level of control (below 10%), it can be said that the ultimate ownership still has an effective level of control.

In public companies, majority ownership are often invited as ruling figures. That becomes reasonable because the amount of shareholding is an interpretation of the high risk. When the company increases bankruptcy, so the one who owned the largest share is the one who has the biggest risk. Thus, if the majority owner(ship) also has special rights in determining the direction and making important decisions, including choosing who occupies the structure of BOC and BOD.

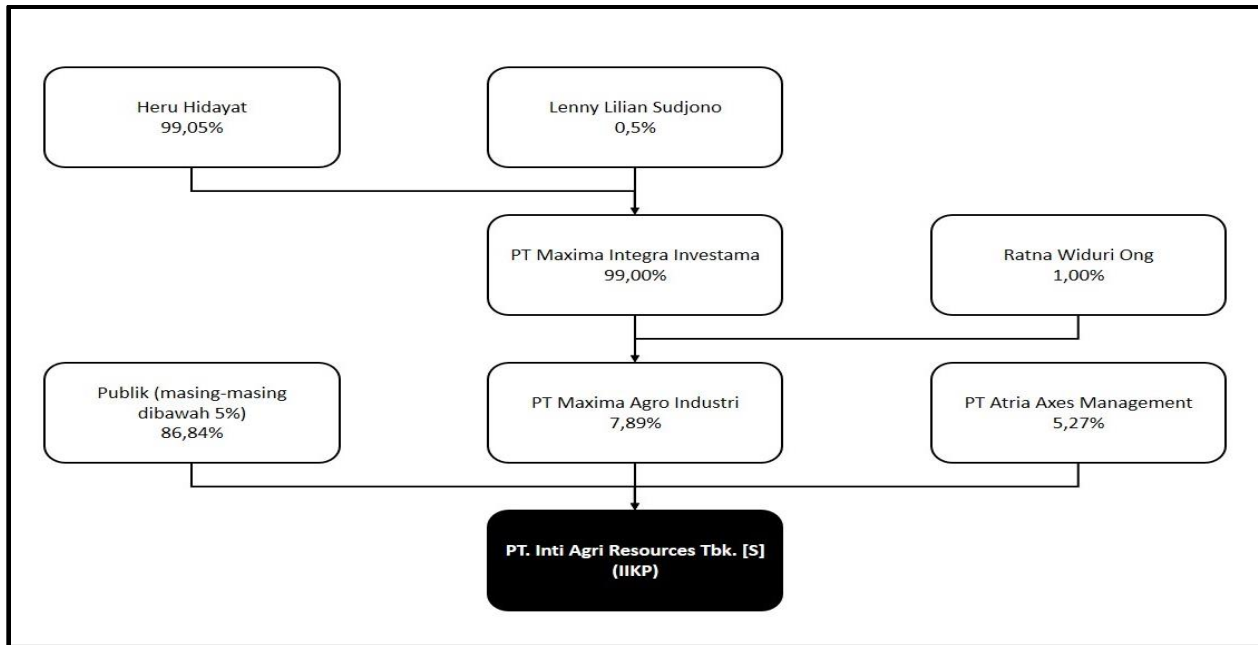


Figure 4. Ownership of majority under 20% in public companies.
Source: IIKP Annual Report, 2016.

In figure 4, Heru Hidayat’s family has a 7.89% voting rights and 7.81% cash-flow rights. Although this amount is under the cut-off levels of control 10-20%, no other shareholder has the amount of voting rights and cash-flow rights over the Heru Hidayat Family. As addition, the Annual Reports statements of PT. IIKP Tbk in 2016 show the name Heru Hidayat sitting as a member of the structure of the BOC and his family members Susanti Hidayat in the BOD structure. This fact shows that through a small cut-off level of control, Heru Hidayat’s family remains the ultimate ownership and holds control. Therefore, it is not surprising that Heru Hidayat’s family has control in the company’s special decisions such as choosing who sits in the structure of BOD and BOC.

d. Finding The “Controlling Shareholder” Narrative in The Annual Report

When identifying ultimate ownership, sometimes the research team found an unique case where there was an individual/family that was not a ‘majority’ shareholder (measured by voting rights and cash-flow rights), but found a statement on the narrative of his annual report which confirmed that individuals/families as controlling shareholder. If there is a case like this, then the research team decides to determine the individual/family as the ultimate ownership who certainly does control the public company. This ideas comes from the basic assumption that the Annual Report is a form of agreement of all public company stakeholders, so that all forms of written recognition in Annual Report reflect the facts that occur in the public company. If certain individual/family have been affirmed as controlling shareholders in the Annual Report, it can be said that this is what really happened.

For example, can be seen in Figure 5.

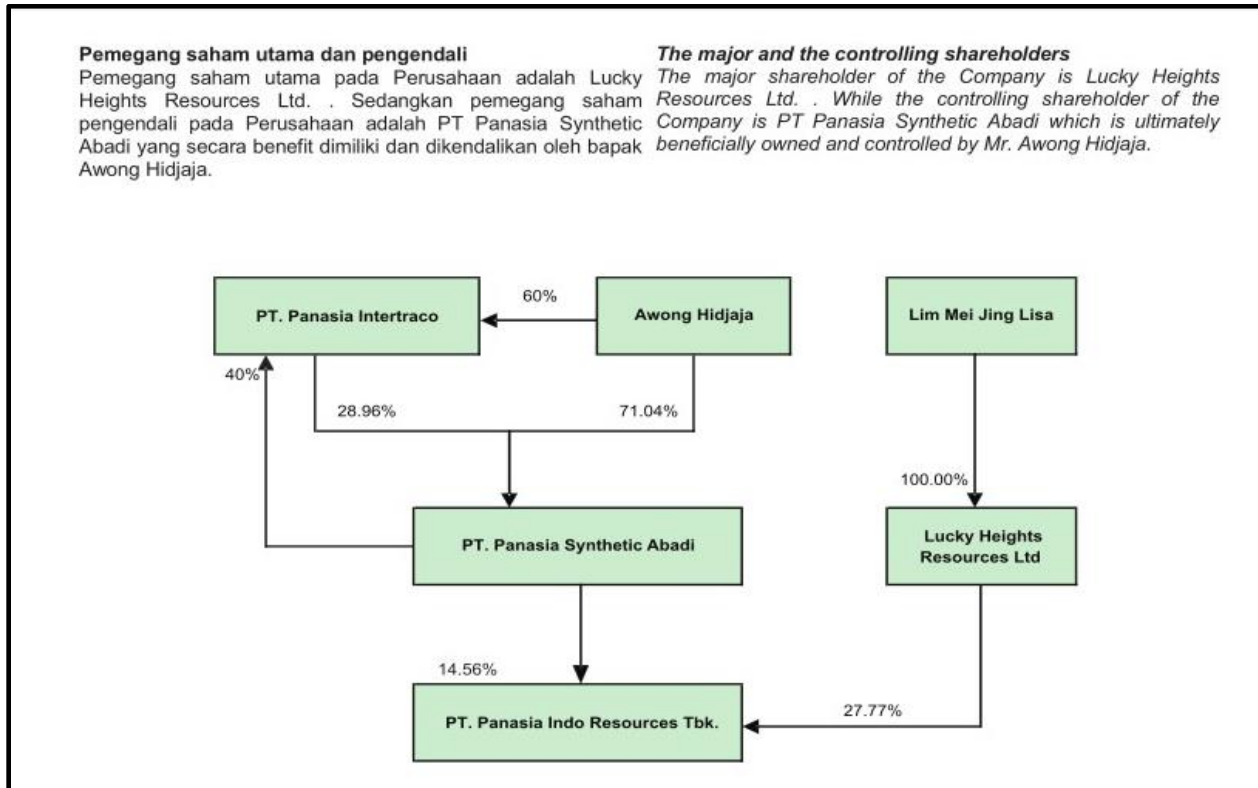


Figure 5. Controlling Shareholder Narrative in The Annual Report of Public Company.
Source: HDTX Annual Report, 2017.

In Figure 5, it is confirmed in the Annual Report that controlling shareholders of PT. HDTX Tbk is Awong Hidjaja through PT. Panasia Intertraco and PT. Panasia Synthetic Abadi. In fact, Awong Hidjaja only has 17.43% of voting rights (the sum 2.87% of direct voting rights and 14.56% of indirect voting rights) and 15.74% of cash-flow rights (the sum of 2.87% of direct cash-flow rights and 12.87% of indirect cash-flow rights). Meanwhile, another shareholder named Lim Mei Jing Lisa has 27.77% of voting rights and cash-flow rights (voting rights and cash-flow rights have the same amount because they only have a single layer). That is, if you use the “majority” concept approach, then the majority ownership PT. Panasia Synthetic Abadi is Lim Mei Jing Lisa. To respond such cases, the research team decided to establish Awong Hidjaja as the ultimate ownership through the controlling shareholder’s narrative based on the Annual Report.

Beside functioning as a source of information to assert the ultimate ownership, statements and narratives in the annual report are also used to search information about the affiliation of the BOD and BOC to the controlling shareholder. To find out the data, usually each company report it on the GCG report as a commitment and responsibility to corporate transparency towards governance.

Results

After identifying each public company in 2014-2017, several descriptions were found as in Table 1 and Table 2 below.

Table.1. Classification of Ultimate Ownership in Public Companies in Indonesia during 2014-2017 period.

No.	Control Group	2014	2015	2016	2017	Total
1.	Family/Individual	273	280	292	303	1148
2.	Government	37	39	42	40	158
3.	Company/Corporation	171	163	170	151	655
4.	Less Complete Information	30	38	35	45	148
Total		511	520	539	539	2109

Source: IIFF UII, 2019.

Table.2. Family as Ultimate Ownership, Ownership Structure Model and Family Involvement in BOC and BOD in Public Companies in Indonesia during 2014-2017 period.

No	Information	Years			
		2014	2015	2016	2017
1.	Family Ownership Model				
	a. Direct Ownership	21	23	32	32
	b. Indirect Ownership	146	143	141	148
	c. Direct and Indirect Ownership	106	114	119	123
	Total	273	280	292	303
2.	Family Involvement				
	a. BOC	190	166	186	190
	b. BOD	152	145	154	153

Source: IIFF UII, 2019.

By tracking data on 2109 annual reports of public companies during 2014-2017 period, the amount of family as ultimate ownership is more dominated 54.43% than corporations (31.05%) and countries (7.49%). In the introduction above, it has been explained that the lack of information will be one of the obstacles in the identification process. There are 148 annual reports out of a total of 4 years of observation that have experienced incomplete information problems. The amount is relatively small, which is 7.03% of the total observations. In general, these results support a number of previous research by La Porta et al. (1999), Fan et al. (1999), Claessens et al. (2000), Siregar (2008). Those research states that most public companies in Indonesia are still concentrated and lead to family as ultimate ownership.

Based on Table 2, it can be seen that the majority (90.83%) of family-controlled firm increase their control rights through the indirect ownership structure (pyramid ownership). This condition can strengthen the assumption that public companies in Indonesia are vulnerable to expropriation or agency conflicts between the majority and minorities. Therefore, when the family-controlled firm also trying to improve control through the involvement of family members in the structure of BOC and BOD then this condition was unavoidable.

Conclusion

The results of the identification in this research found that the majority (54.43%) of public companies on the IDX were controlled by the family as the ultimate ownership. The majority (90.83%) of family control is done through the indirect ownership model (pyramid ownership). Family involvement in the structure of BOD and BOC also became an interesting discovery in this research. The large number firm controlled by family (50% more) that place their family members on BOD and BOC structure raises concerns about the increasing potential of expropriation behavior and agency conflict between the majority and minority.

The ultimate ownership database generated from this research is expected to be used for further research. Many issues can be raised such as the differences performance between family firm and non-family firm, the potential of expropriation and agency conflict, or issues of succession and family company governance as a public company.

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