

# THE INFLUENCE OF OWNERSHIP STRUCTURE (FAMILY SHARES) TO VALUE OF FIRM

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## ABSTRACT

*Kalbe Farma Group was founded in 1966 as a family owned corporation with initial capital contributed among 6 brothers. This pharmaceutical corporation since then has grown rapidly, and currently has been transformed into one of the main pharmaceutical company in Indonesia. The Company's current main areas of business activities are the production, distribution, marketing and packaging of pharmaceuticals, health foods and other consumer products. To achieved current performance and become large corporation, Kalbe Farma Group as family owned corporation, implement a basic policy maintaining high profitability without sacrificing importance of family interest. To do this, Kalbe Farma Group has long since given the management of its company to professionals including expatriate while maintaining high ownership structure within founding family. This study is conducted to see whether the strategy taken by the owner of Kalbe Farma Group has significance influence to the value of the firm. We try to find the correlation between the structure of ownership and the profitability of PT. Kalbe Farma ( Persero) Tbk. The data come from published annual report during period of year 2000-2005.*

*Result of research show the following result that the ownership structure (family shares) is not significant influence positively to value of firm (both of indicators, ROA & ROE). However, the result shows that although there is not the significant influence positively of the ownership structure (family shares) to value of firm. There are several questions and inquiries that need to be clarified and the result emphasizes the need to conduct next research which include other aspects, e.g macro economics or exchange rate.*

*Keywords: Ownership Structure, Family Shares, Value of Firm*

## 1. INTRODUCTION

Kalbe Farma Group was established in 1966 as a family owned corporation with initial capital contributed among 6 brothers. This pharmaceutical corporation since then has grown rapidly, and by this time has been transformed into one of the main pharmaceutical company in Indonesia. The Company's current main areas of business activities are the production, distribution, marketing and packaging of pharmaceuticals, health foods and other consumer products. In order to facilitate these activities, it currently operates four main divisions: Pharmaceuticals, Health Food, Packaging and Distribution.

The owner of company have vision to make its company becomes global scale corporation. The stated vision of Kalbe is “to be dominant in health care business in Indonesia and exist in global market with strong brands, enabled by excellent management, science and technology”.

Various step and preparation have been conducted to achieve that vision. In 2005 PT. Kalbe Farma which already become public corporation have merger with PT. Dankos Laboratories and of PT. Enseval ( which also both public company) and becoming PT. Kalbe Farma ( Persero) Tbk.

Theoretical definition of family business according to Chua et al's (1999, p. 25) is: "*The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.*"

Shanker & Astrachan (1996) pointed out that, operationally, family firms can be defined narrowly (family is involved in the day-to-day management of the business) or broadly (family sets the strategic direction for the business) implying that there is a range of familiness. Westhead & Cowling (1998) follow the same approach and propose finer gradations of this continuum. To bolster this point, Tsang (2002) notes that decisions about the strategic direction of a business can be shared in various degrees between family and non-family managers.

However, the problems of close kinship, ownership and management transfers, and conflicts of interest may also create inefficiencies that limit the ability of family businesses to create or renew distinctive familiness (cf. Cabrera-Suarez, De Saa-Perez, & Garcia-Almeida, 2001; Steier, 2001a, 2001b, 2003; Miller et al., 2003; Stewart, 2003).

In Kalbe Farma Group, the founders of the company choose to use professionals, even use expatriate, from their early establishment (SWA, No. 11, 2006). However, the Kalbe Farma Group as family business corporation, implement a basic policy maintaining high profitability without sacrificing importance of family interest. They are using professionals to run day-to-day management, while maintaining high ownership structure of within founding family. This step also maintained at the time of their go public.

## **2. RESEARCH OBJECTIVES**

- a. To study the growth of ownership structure for family shares
- b. To study the growth of value of firm
- c. To measure the influence of ownership structure (family shares) to value of firm

## **3. HYPOTHESIS**

The hypothesis is: there is a significant influence positively of ownership structure (family shares) to value of firm.

## **4. METHODOLOGY**

- a. This study measures the influence of ownership structure (family shares) to value of firm. We use Return on Equity (ROE) and Return on Assets (ROA) for indicator of Value of Firm.
- b. Ownership Structure (family shares) and Value of Firm are analyzed. They are correlated within each other by Pearson's components. Analysis of influence of them is addressed by one way ANOVA. A  $p$  value of less than or equal to 0.05 is considered statistically significant.
- c. Period of research data consists of 6 periods, 2000 until 2005.

## 5. HYPOTHESIS TEST

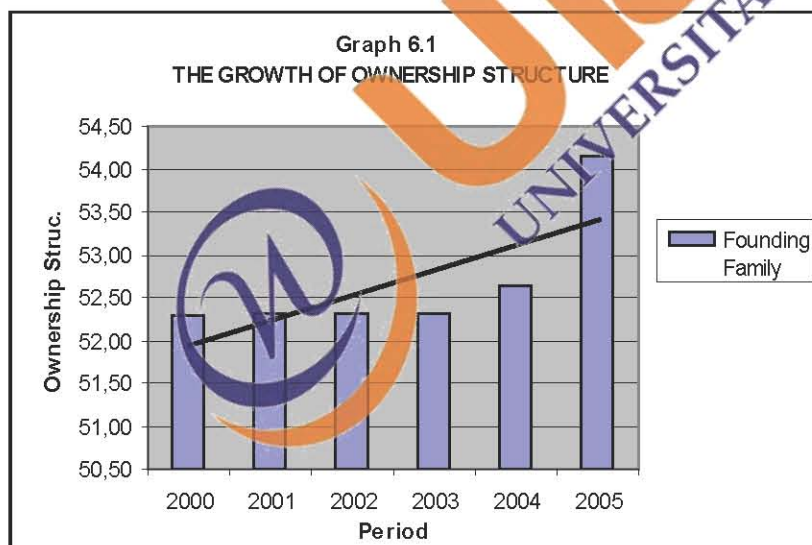
The Hypothesis concerns to the influence of ownership structure, especially structure of family shares, to value of firm (ROA or ROE).

### The Hypothesis

- a. Ho: The ownership structure (family shares) is significant influence negatively to value of firm (Return on Assets (ROA)) or the ownership structure (family shares) is not significant influence to value of firm (Return on Assets (ROA)).  
Ha: The ownership structure (family shares) is significant influence positively to value of firm (Return on Assets (ROA))
- b. Ho: The ownership structure (family shares) is significant influence negatively to value of firm (Return on Equity (ROE)) or the ownership structure (family shares) is not significant influence to value of firm (Return on Assets (ROE)).  
Ha: The ownership structure (family shares) is significant influence positively to value of firm (Return on Assets (ROE))

## 6. RESULTS

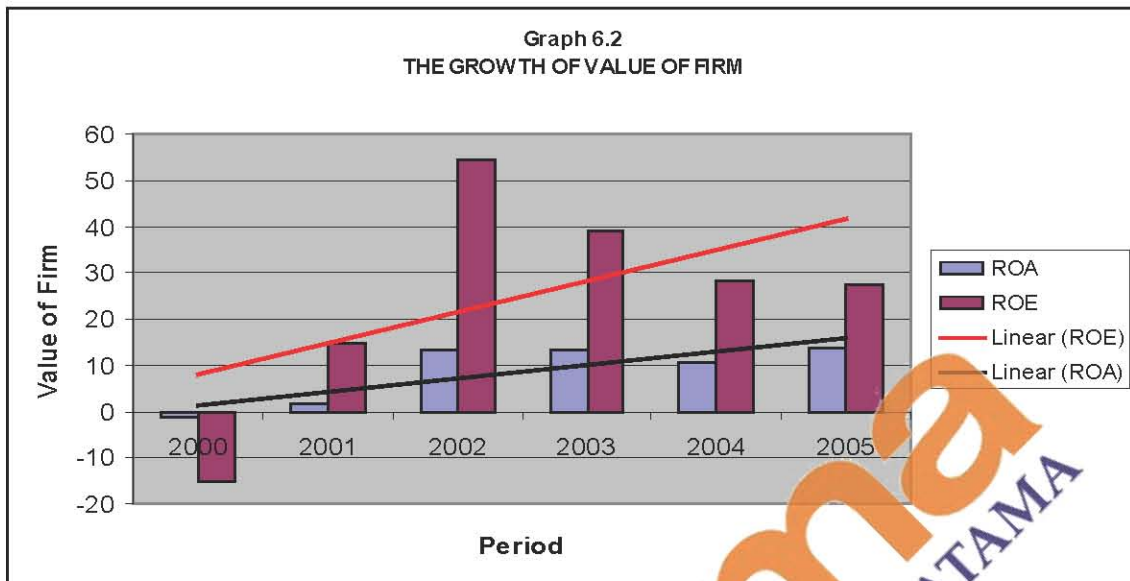
### 6.1 The Growth of Ownership Structure



Source: Kalbe Farma Financial Report

Generally the growth of ownership structure, especially for family shares, is not too significant. But, the growth from 2004 to 2005 is very significant. The reason is Kalbe Farma has the merger with Dankos and Enseval.

## 6.2 The Growth of Value of Firm (ROA & ROE)



Source: Kalbe Farma Financial Report

The graph 6.2 shows that the growth of value of firm (ROA & ROE) for the last six (6) years is very volatile due to the fluctuation of Rupiah exchange rate against US Dollar. In 2005, ROA is 13.82% and ROE is 27.35%.

## 6.3 The Influence of ownership structure (family shares) to value of firm

### a. The ownership structure (family shares) to Return on Assets (ROA)

Table 6.3.a.1  
Descriptive Statistics of the Ownership Structure (family shares)  
to Return on Assets (ROA)

|               | Mean    | Std. Deviation | N |
|---------------|---------|----------------|---|
| ROA           | 8,5800  | 6,57820        | 6 |
| Family shares | 52,6767 | ,73915         | 6 |

Table 6.3.a.2  
Correlations of the Ownership Structure (family shares)  
with Return on Assets (ROA)

|                     |               | ROA   | Family shares |
|---------------------|---------------|-------|---------------|
| Pearson Correlation | ROA           | 1,000 | ,431          |
|                     | Family shares | ,431  | 1,000         |
| Sig. (1-tailed)     | ROA           | .     | ,197          |
|                     | Family shares | ,197  | .             |
| N                   | ROA           | 6     | 6             |
|                     | Family shares | 6     | 6             |

The correlation coefficient, 0.431, shows the strong enough correlation between Ownership Structure (family shares) and Return on Assets (ROA). The positive direction of correlation describes that bigger structure of family shares will be followed by increasing of Return on Assets.

**Table 6.3.a.3**  
**Model Summary(b) of the Ownership Structure (family shares)**  
**to Return on Assets (ROA)**

| Model | R       | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|---------|----------|-------------------|----------------------------|
| 1     | ,431(a) | ,186     | -,018             | 6,63718                    |

a Predictors: (Constant), Family shares

b Dependent Variable: ROA

R Square = 0.186, usually is referred as determinant coefficient. It means that 18.6% of ROA can be described by Structure of family shares. 81.4% can be described by other reasons.

**Table 6.3.a.4**  
**ANOVA(b) of the Ownership Structure (family shares)**  
**to Return on Assets (ROA)**

| Model |            | Sum of Squares | df | Mean Square | F    | Sig.    |
|-------|------------|----------------|----|-------------|------|---------|
| 1     | Regression | 40,155         | 1  | 40,155      | ,912 | ,394(a) |
|       | Residual   | 176,209        | 4  | 44,052      |      |         |
|       | Total      | 216,363        | 5  |             |      |         |

a Predictors: (Constant), Family Shares

b Dependent Variable: ROA

Based on ANOVA Test or F test, there is F test =0.912 with the significant level 0.394. Because the probability (0.394) bigger than 0.05, this regression model can not be used for prediction the Return on Assets.

**Table 6.3.a.5**  
**Coefficient (a) of the Ownership Structure (family shares)**  
**to Return on Assets (ROA)**

| Model |               | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig. |
|-------|---------------|-----------------------------|------------|---------------------------|-------|------|
|       |               | B                           | Std. Error | Beta                      |       |      |
| 1     | (Constant)    | -193,381                    | 211,553    |                           | -,914 | ,412 |
|       | Family Shares | 3,834                       | 4,016      | ,431                      | ,955  | ,394 |

a Dependent Variable: ROA

Table 6.3.a.5 describes the regression equation  $Y = -193.381 + 3.834X$

The result of T test shows the significant level bigger than 0.05,  $H_0$  will be accepted. It means that the ownership structure (family shares) is not influence to Return on Assets.

b. The ownership structure (family shares) to Return on Equity (ROE)

**Table 6.3.b.1**  
**Descriptive Statistics of the Ownership Structure (family shares)**  
**to Return on Equity (ROE)**

|               | Mean    | Std. Deviation | N |
|---------------|---------|----------------|---|
| ROE           | 24,7883 | 23,61243       | 6 |
| Family Shares | 52,6767 | ,73915         | 6 |

**Table 6.3.b.2**  
**Correlations of the Ownership Structure (family shares)**  
**with Return on Equity (ROE)**

|                     |               | ROE   | FoundingFamily |
|---------------------|---------------|-------|----------------|
| Pearson Correlation | ROE           | 1,000 | ,074           |
|                     | Family Shares | ,074  | 1,000          |
| Sig. (1-tailed)     | ROE           |       | ,444           |
|                     | Family Shares | ,444  |                |
| N                   | ROE           | 6     | 6              |
|                     | Family Shares | 6     | 6              |

The correlation coefficient, 0,074, shows the weakness correlation between Ownership Structure (family shares) and Return on Equity (ROE). The positive direction of correlation describes that bigger structure of family shares will be followed by increasing of Return on Equity.

**Table 6.3.b.3**  
**Model Summary(b) of the Ownership Structure (family shares)**  
**to Return on Equity (ROE)**

| Model | R       | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|---------|----------|-------------------|----------------------------|
| 1     | ,074(a) | ,006     | -,243             | 26,32637                   |

a Predictors: (Constant), Family shares

b Dependent Variable: ROE

R Square = 0.006, usually is referred as determinant coefficient. It means that 0.6% of ROE can be described by Structure of family shares. 99.4% can be described by other reasons.

**Table 6.3.b.4**  
**ANOVA(b) of the Ownership Structure (family shares)**  
**to Return on Equity (ROE)**

| Model |            | Sum of Squares | df | Mean Square | F    | Sig.    |
|-------|------------|----------------|----|-------------|------|---------|
| 1     | Regression | 15,424         | 1  | 15,424      | ,022 | ,889(a) |
|       | Residual   | 2772,311       | 4  | 693,078     |      |         |
|       | Total      | 2787,735       | 5  |             |      |         |

a Predictors: (Constant), Family Shares  
b Dependent Variable: ROE

Based on ANOVA Test or F test, there is F test =0.022 with the significant level 0.889. Because the probability (0.889) bigger than 0.05, this regression model can not be used for prediction the Return on Equity.

**Table 6.3.b.5**  
**Coefficient (a) of the Ownership Structure (family shares)**  
**to Return on Equity (ROE)**

| Model |               | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig. |
|-------|---------------|-----------------------------|------------|---------------------------|-------|------|
|       |               | B                           | Std. Error | Beta                      |       |      |
| 1     | (Constant)    | -100,382                    | 839,123    |                           | -,120 | ,911 |
|       | Family Shares | 2,376                       | 15,928     | ,074                      | ,149  | ,889 |

a Dependent Variable: ROE

Table 6.3.b.5 describes the regression equation  $Y = -100.382 + 2.376X$ . The result of T test shows the significant level bigger than 0.05,  $H_0$  will be accepted. It means that the ownership structure (family shares) is not influence to Return on Equity

Based on the result that the ownership structure (family shares) is not significant influence positively to value of firm (both of indicators, ROA & ROE). There are several reasons, especially external aspect that influence value of firm. The growth of value of firm (ROA & ROE) for the last six (6) years is very volatile due to the fluctuation of Rupiah exchange rate against US Dollar. This is one of fact that external aspect, in this case related with macro economic, can be avoid by management.

The strategy was taken by the owner of Kalbe Farma Group to increase the value of firm, is merger. On November 2005, Kalbe Farma Group had merger with PT. Dankos Laboratories and of PT. Enseval (which also both public company) and becoming PT. Kalbe Farma ( Persero) Tbk. This is one of effort to increase the equity that will influence to decreasing of debt.

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