The Comparison of Family’s Ownership Structure in Public Firms: Profitability Ratio

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ABSTRACT

From almost 341 companies listed in Jakarta Stock Exchange, some of them are family managed business. Like most of all company, the purpose of being listed in stock exchange market is to raise its market value together with the larger the capital they have. In this paper, the author try to compare the profitability ratio between go public family business (FB) with family ownership structure less than fifty percent and the FB with family ownership more than fifty percent. The analysis use two go public family businesses in the confectionary industry. The study compare the go public FB with capital structure less than fifty percent and the FB with capital structure more than fifty percent and analyze which FB perform better profitability ratio. The data use 5 years financial report from 2001 -2005. From the analysis we found that go public family business with family ownership less than 50 percent perform better profitability ratio than those with family ownership more 50 percent.

Keywords: Family Business, go public, profitability analysis, Indonesia confectionary industry, capital structure

Introduction:

Most of successful businesses are started from family managed business. But we also see that many family business cannot continue running its business because of many reasons. Some of the reasons are equity problem and the clash of family management of the founder. With the purpose of raising its financial performance family business are facing a problem of equity constraint. Because of that problem the family business have to choose between banking loan and listing in stock exchange market.

Family managed business company will benefit by listing in the stock exchange market. Besides the chance to have more capital, the
company will be more professionally managed than before since people able to evaluate the use of the capital, and the productivity of employers will increase because they have a change to own some of company stocks through ESOP problem. The family business listed in stock market will raise its company image and company value because periodically they have to report their working plans and financial report to.

One of the benefits of being listed in the stock exchange market is popular so that their products are well known and can be absorbed by market fast. This benefit will invite skilled and professional worker to join the company so that they can build a good team work and in the long term company will be much more competitive. The owners of the company will be concern to the performance of company. The increase of the company value will increase its market value and this is reflected in the price of shares. As a whole, the benefit is that the company will maintain its business and always do their best to overcome any kind of business problems and hold the trusts from the investors and public.

For family business, the alternative to be listed in stock exchange market and share their ownership will strengthen the unity among founding member. As a sample to discuss, many companies in Palembang South Sumatera are started from family business but they can not continue their business as they enter the second or third generation. By sharing their ownership in stock exchange, the family business will have new investors that concern more to the sustainability of the business performance. Moreover, the family business company can establish business networking and perform better financial structure because they can use the fund from selling those shares to meet company’s loan and to finance new capital.

Many researches try to compare the performance between family businesses with non family business. Poutziorious, 350 FB’s and NFB’s found that hittendan and Michaelas (1988) studied the degree to which the concentration of capital had an influence on the financing structure and they found that FB’s had a lower ratio of leverage, a higher proportion of “property asset to total assets,” lower “asset turnover and a lower investment in tangible asset and lower profit on investment.

Smyrnius, Romano and Tanewski (1988), with a sample of about 1000 FB’s from 5000 largest businesses in Australia, found that the growth and size of FB’s, combine with the proportion of capital in the family’s hands, were the determinations factors in the type of financing FBs used, whether it be capital gains, business savings, or loans from the family or financial institutions.
Based on the description above, we try to analyze whether the FB's with capital structure more than 50% perform better profitability ratio than those with capital structure less than 50%.

**Definition of Family Business**

A family business is made up of two elements, family and business. Certain values and family ties lead a company to deal differently with economic challenges.

Rosenblatt, de Mik, Anderson, and Johnson (1985, pp.4) define a family business as: any business in which majority ownership or control lies within a single family and in which two or more family members are or at some time were directly involved in the business.

Imanol Belausteguigoiti outlines the competitive advantages of family businesses over non-family business as being (i) greater loyalty, (ii) stronger commitment, (iii) easier understanding, (iv) respect for authority, (v) low staff turnover, (vi) longer-term vision and, (vii) plenty of time to train employees and groom successors (Fastag, 2002, pp.1).

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Hutcheson (2002, pp.119) reminds us that Ford, Campbell's Soup, Cargill, Siemens and type of financing FBs used, whether it be capital gains, business savings, or loans in the type of financing are all essentially family businesses, and all are multi-billion dollar enterprises, among the largest on the planet.

From the discussion we can say that family businesses can, in at least some instances, be as big and sophisticated as any non-family firm. Not all are, but neither are all of them crudely managed and poorly led. They come in all kind and as diverse as business itself.

**Analysis**

Like in other countries the growth of Family businesses in Indonesia has the same life cycles. Some of them manage to operate until third and fourth generation.

The two FBs that we study in this paper are PT. Mayora Indah Tbk and PT. Sekar Laut Tbk.
PT. Mayora Indah Tbk (company) was established in 1977 with first factory located in Tangerang. The company is managed by the Board of Directors and under the supervision of The Board of Commissions whose members are appointed by The Shareholders General Meeting.

Along with the economic growth and the development of the company, in 1990 the company did an initial public offering and became listed at the Jakarta Stock Exchange and the Surabaya Stock Exchange.

PT. Sekar Laut Tbk was established in 1976 and on 8 September 1993 its shares were listed for trading in the Jakarta and Surabaya Stock Exchange.

The study use financial report data for those two companies listed in Jakarta Stock Exchange. PT. Mayora Indah Tbk (company) with family shares less than 50% and PT. Sekar Laut Tbk with family shares of more than 50%. The Capital structure tables are as follows:

**Table 1. Capital Structure of PT Mayora Indah Tbk and PT Sekar Laut Tbk.**

<table>
<thead>
<tr>
<th>No</th>
<th>Company</th>
<th>Capital Structure</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PT Sekar Laut Tbk.</td>
<td>PT. Alamiah Sari</td>
<td>64,30%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Harry Susilo</td>
<td>5,30%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tan Joe Lie</td>
<td>7,11%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chong Boon Chin</td>
<td>6,57%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Public</td>
<td>16,72%</td>
</tr>
<tr>
<td>2</td>
<td>PT Mayora Indah Tbk.</td>
<td>PT. Unita Branindo</td>
<td>32,93%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>HSBC (Singapore) Nominee Pte Ltd</td>
<td>6,17%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Public</td>
<td>60,90%</td>
</tr>
</tbody>
</table>

Both two companies operate on the same area of industry which is confectionary industry. Following are the data profitability ratio of the two companies from 2001-2005.
Table 2
Profitability data of PT. Mayora Indah Tbk.

<table>
<thead>
<tr>
<th>In Million Rupiah</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>883.997</td>
<td>998.557</td>
<td>1,103,893</td>
<td>1,378,127</td>
<td>1,706.184</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>190.445</td>
<td>274.109</td>
<td>298.976</td>
<td>342.499</td>
<td>376.946</td>
</tr>
<tr>
<td>Operating Income</td>
<td>100.695</td>
<td>151.799</td>
<td>151.019</td>
<td>130.632</td>
<td>93.535</td>
</tr>
<tr>
<td>Net Income</td>
<td>31.136</td>
<td>119.490</td>
<td>84.617</td>
<td>85.617</td>
<td>45.730</td>
</tr>
</tbody>
</table>

Source: www.jsx.com

Table 3
Profitability Data of PT. Sekar Laut Tbk.

<table>
<thead>
<tr>
<th>In Million Rupiah</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>175.300</td>
<td>158.300</td>
<td>151.500</td>
<td>137.800</td>
<td>167.300</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>26.100</td>
<td>25.100</td>
<td>20.500</td>
<td>24.000</td>
<td>30.100</td>
</tr>
<tr>
<td>Net Income</td>
<td>-77.500</td>
<td>42.100</td>
<td>10.700</td>
<td>-42.600</td>
<td>91.600</td>
</tr>
</tbody>
</table>

Source: www.jsx.com

Profitability Ratio comparison

From the data above we compare the profitability ratio of the two companies and determine which company performs better profitability ratio. The ratio of profitability is described in the following picture:
The findings

The average ratio of net income (loss) to sales of both companies for five years is that PT. Sekar Laut Tbk is 2.68% Meanwhile PT. Mayora Indah Tbk 6.6%.

From the graphic we can say that from 2001 until 2005, PT. Sekar Laut Tbk, go public family business with family ownership more than 50%, has a higher probability ratio but perform unstable compared to PT. Mayora Indah. We can also see that in 2001 and 2004 PT. Sekar Laut Tbk suffer a high loss.

Many reasons could be the cause of PT. Sekar Laut Tbk performance, some of them are:

- PT. Sekar Laut Tbk as a parent company gave a lot of soft loan with zero interest rate to its subsidiary companies.
- Many transactions are held among parent and subsidiary companies.

In other case, PT. Mayora Indah Tbk, go public family business with family ownership less than 50%, has a lower but stable probability ratio compared to PT. Sekar Laut Tbk. This reason for this achievement is that with family ownership less than 50 percent, conflict of interest inside the company can be reduced.
Conclusion

Go public family business with family ownership less than 50 percent perform better profitability ratio than those with family ownership more 50 percent. Its mean that the higher the family ownership the bigger the effect of conflict of interest to the performance of company.

Suggestion:
From the findings, we can suggest that Family Business with family ownership of less than fifty percent perform better profitability ratio since they have a public and control in management.

References: