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OWNERSHIP STRUCTURE AND CORPORATE RESTRUCTURING: DOES IT HAVE AN IMPACT?

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Abstract: *Ownership structure has a role in decision making by the company. This study wants to examine the effect of ownership structure on the choice of corporate restructuring: asset divestment and dividend cut. This study focuses on the restructuring strategy on manufacturing firms that experience declining performance, using the proxy of decreasing Earnings Before Interest and Tax for two or more consecutive years, in the period of 2010 until 2020. Data analysis techniques using OLS Regression through Stata Program. The result shows: 1. Managerial ownership has positive impact on asset divestment, but family ownership, liquidity and inflation (as control variable) have negative impact on asset restructuring, namely, assets divestment, and 2. Family ownership have positive significant impact on financial restructuring through dividend cut, but institutional ownership have negative impact on dividend cut restructuring.. Applications/Originality/Value: This study provides strengthening empirical evidence about the impact of ownership structure on corporate restructuring (divestment and dividend cut) choices in distress firms. This study is appropriate to carried out in Indonesia, which has a high leveraged firm on average 43% and emerging market.*

Keyword: *Managerial ownership, institutional ownership, family ownership, assets divestment, restructuring*

1. Introduction

According to the stakeholder view and the concept of agency problems, it shows that corporate goals require not only shareholder-diffused goals but also require some shareholder or manager oversight. So that companies that experience declining such as failure in sales, growth, image or quality and a decline in several key organizational success factors can indicate the company is experiencing a decline (Astha, 2004). The study stated that restructuring activities were carried out to seek to reverse the declining condition of the company's performance. The decline in performance that lasts for some time must be attempted to recover so that performance returns to normal through a turnaround strategy (Fan, *et al.*, 2013).

The concept of turnaround can also be interpreted as a reversal process from declining performance to improving performance (Brandes and Brege, 1993 in Harker, 1996, p.257; Robin and Pearce, 1993). In addition, according to Schendel, *et al.*, (1976) the definition of turnaround is the decline and improvement of company performance. The turnaround strategy that is usually carried out by the company is corporate restructuring including: managerial, operational, asset and financial restructuring. (Kang and Shivdasani, 1997; Sudarsanam and Lai, 2001; Xu-Dong (2015); Huang and Chen, 2012; Iwasaki, 2020; Misas, 2020, Li, *et al.*, 2020)

The Institute for Development Economics and Finance (INDEF) said pessimism if economic growth in Indonesia at around 6% in the second quarter of 2021, so it is still unable to meet the government's target. INDEF predicts economic growth will still range from 1% to 2%. Growth is still driven by government stimulus such as social assistance, to the property sector. (www.kontan.co.id). Firms in emerging countries are characterized by the high growth, leverage, ineffective corporate governance, and different legal and institutional context compared to the firms in the developed countries, thus we may argue that they may developed difference restructuring strategy to solve different situation (Lai & Sudarsanam, 1997; Pandey, *et al.*, 2015).

Pandey, *et al* (2015) stated that the choice of restructuring strategy is influenced by ownership structure, this opinion is supported by Koh, *et al* (2015), Bethel & Liebeskind (1993), Ofek (1993), Lai and Sudarsanam, (1997), Jin Zao (2009), Iwasaki, *et al*, (2020), Schweizer (2017), Myusoki (2017). In accordance with agency theory that the problem that causes the company's performance to decline is the bad relationship between shareholders and managers, but when the relationship between shareholders and managers can be controlled, the company's performance can be better.

Huang and Chen (2012) found empirical evidence that the announcement of asset sales has a significant positive effect on stock prices, these results are consistent in UK and US countries. Every change in assets will affect abnormal stock returns and capital income is greater for companies that announce asset sales. Aksoy, *et al*., (2020) studied on companies in Turkey states that institutional ownership structure affects the company's performance in a sustainable manner.

Bethel and Liebeskind (1993) show that blockholder and institutional ownership has a significant effect on corporate portfolio restructuring, namely downsizing, reducing diversification and investment and financial restructuring, namely changes in dividend payments, changes in investment and changes in investment levels. Another finding is that insider ownership has no effect on portfolio restructuring, this indicates that companies with high levels of insider ownership already have an efficient configuration. However, insider and changes in institutional ownership have a significant influence on financial restructuring, namely dividend reduction and investment changes (Ofek, 1993; Misas, 2020) .

This article aims to test impact ownership structure to corporate restructuring in Indonesia because one of the variables of ownership structure characterizes companies in Indonesia, namely family ownership. Family ownership still dominates companies in East Asia such as Indonesia (Claessen, *et al*., 2000) although it experienced a decline in the proportion of ownership by 51% due to political changes, but still gives more control to companies in Asia. In addition, Indonesia as a developing country experienced a decrease in the proportion of family ownership from 68.6% in 1996 to 57.3% in 2008 (Carney and Child, 2013), but it is seen that more than 50% of company ownership is owned by families so that they are still considered to have a big role in decision making (Setiawan, *et al*., 2016).

This study provides a theoretical contribution by providing empirical evidence regarding the effect of ownership structure as one of the agency monitoring mechanisms on the company's decision to improve financial performance through restructuring. While the practical contribution is to generate understanding for managers or policy makers to pay attention to the role of the company's shareholders so that the decisions taken will be right and succeed in improving company performance.

This paper is organized as follows. Part 1 is the introduction of the study. Part 2 discusses about some previous studies and the fundamental theories underlying the hypotheses development on the definition of corporate restructuring and the study variables. In Part 3, the methodology, data, samples, and analysis technique are presented. Part 4 describes the results of the study. Finally, Part 5 is for the conclusion, suggestion, and the implication of the study.

2. Literature Review and Hypothesis Development

Distress Firm and Restructuring Strategy

According to Altman and Hotckiss (2006) companies that experience business failure can be categorized into four namely failure, insolvency, default and bancruptcy. Although these terms can be used interchangeably, the four have differences. The four categories are: failure, insolvency, default, bancruptcy. Distress conditions are also characterized as the condition of the company experiencing failure, unable to meet obligations (insolvency), bankruptcy and default. Failure conditions occur when the capital that we will invest generates income that is unable to cover costs (Richardson, *et al*., 2015). Financial distress can also be defined as the company's inability to pay financial obligations that have matured (Beaver, *et al*., 2011), have negative earnings before tax (John, *et al*., 1992) and have decreased profitability (Kordestani, *et al*., , 2011)

Based on organizational theory, the content of the turnaround strategy discusses the strategies and activities carried out during the turnaround. The turnaround content taxonomy is broken down by dimensions common to corporate restructuring research that partially explain the nature of the different actions. Actions or actions in the turnaround strategy are corporate restructuring including: managerial, operational, asset and financial restructuring. (Sudarsanam and Lai, 2001; Myusoki, *et al.* 2017; Schweizer, 2017))

Lai and Sudarsanam (1997) conducted a study on the effect of ownership structure, governance and lenders on the choice of restructuring strategy of distressed companies in the United Kingdom during 1987-1993. The results show that managerial ownership has a negative effect on the choice of operational and asset restructuring, while CEO duality has a negative influence on asset restructuring, namely asset sales and capital expenditure.

Pandey, *et al*. (2015) examined the effect of leverage, institutional ownership, duality chairman, board of directors, size, independent director and capital intensity variables on the probability of choosing an asset, managerial and financial restructuring strategy. in companies in Thailand for the period 1997 – 2008. However, partially leverage, institutional ownership, capital intensity and company size affect the probability of choosing a debt extension financial restructuring. Management ownership shows a statistically significant negative effect with the choice of management restructuring strategy, namely change of boards management and turnover management (Pandey,*et al.*2015). Institutional ownership shows a statistically significant positive effect for asset restructuring and management strategies, namely Cost rationalization (CR) and creditor presence.

Bethel and Liebeskind (1993) suggest that blockholder and institutional share ownership has a significant effect on corporate portfolio restructuring, namely downsizing, reducing diversification and investment and financial restructuring, namely changes in dividend payments, changes in investment and changes in investment levels. Another finding is that insider ownership has no effect on portfolio restructuring, this indicates that companies with high levels of insider ownership already have an efficient configuration. However, insider ownership, blockholder ownership and changes in institutional ownership have a significant influence on financial restructuring, namely dividend reduction and investment changes.

Managerial Ownership

Management ownership has a significant negative effect on restructuring management turnover in Eastern Europe, while in China, management ownership has no effect on restructuring management turnover. (Iwasaki, 2020; Pandey, *et al*, 2015).

According to Jun Zhao (2009), owners tend to have strong influence on the diversification types/restructuring strategy related with the implementation of firm organizational structure, the different ownership structure may affect the nature of restructuring activities selected by certain business group. Studies have found that in American and other developed countries, types of ownership affect corporate strategy. Dominant stockholders will use their influence to redirect firm that experiences a decline in performance. Restructuring measures depend on stockholder's preference. Stockholders seem to unfavorable views on dividend cut (DC), equity issues (EI), or sales of assets to pay debts (Lai and Sudarsanam, 1997; Lang et al., 1995).

Hypothesis 1: Managerial ownership impacts on asset divestment and financial restructuring strategy

Institutional Ownership

Aksoy *et al*. (2020) research on companies in Turkey states that institutional ownership structure affects the company's performance in a sustainable manner. Also, Huang and Chen (2012) found empirical evidence that the announcement of asset sales has a significant positive effect on stock prices, these results are consistent in UK and US countries. Every change in assets will affect abnormal stock returns and capital income is greater for companies that announce asset sales.

Institutional ownership shows positive relationship with assets and management restructuring strategy (cost rationalization-CR and creditor presence). Firms with controlling shareholders showed a significant negative correlation statistically Creditor strategy Presence in the shareholder structure This due to new stockholders tends to compete with the stockholders who are currently in the ownership structure (Pandey, 2015; Lai and Sudarsanam, 1997). The researchers show that institutional ownership significantly affects financial restructuring through debt restructuring. If institutional ownership is greater, firms have stronger bargaining power to get lending from lenders. Koh *et al*. (2015) finding is straying from agency cost theory, control mechanism in firm with institutional ownership will be stronger in controlling manager behavior, resulting in the greater trust from external party. Research Bethel and Liebeskind (1993) show that blockholder and institutional ownership has a significant effect on corporate portfolio restructuring, namely downsizing, reducing diversification and investment and financial restructuring, namely changes in dividend payments, changes in investment and changes in investment levels.

Hypothesis 2: Institutional ownership impacts on asset divestment and financial restructuring strategy

Family Ownership

The results of the study found evidence that family ownership had a positive effect on corporate restructuring in France 2000-2007. This effect applies when the company is experiencing a deteriorating performance. This finding also states that this restructuring has an impact on improving performance. Family ownership in France further supports corporate restructuring activities (Kavanis and Castaner, 2015; Bennett, 2010). Research by Hedge, *et al*., (2020) states that low or concentrated

family ownership has no significant effect on stock returns, but high family ownership has a positive effect on stock prices.
Hypothesis 3: Family ownership impacts on asset divestment and financial restructuring strategy

The selection of restructuring strategy is also affected by non-agency variables (Lai and Sudarsanam, 1997) and this method can become the internal and external factors. The additional factors added into OLS regression analysis as control variables including liquidity, firm size and inflation. But not hypothesized in this study.

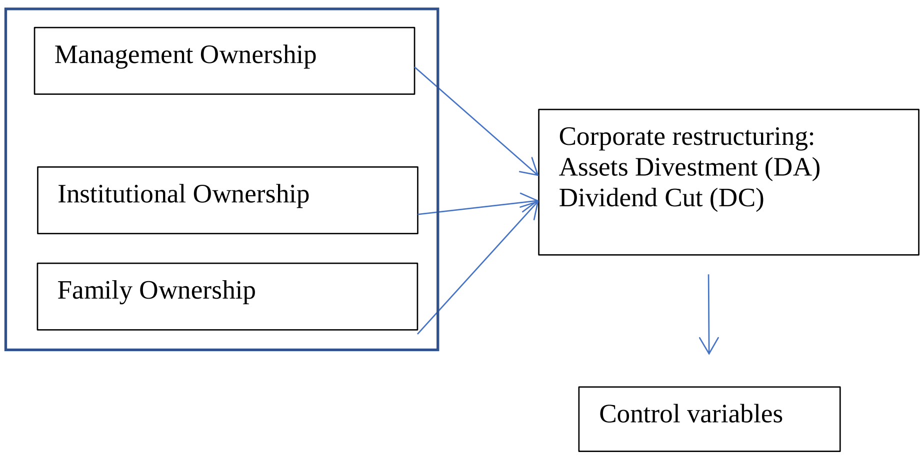

Figure 1 shows the conceptual model assumed in this study

3. Research Method

Sample and Data Collection

The sampling procedure conducted by defining the declining EBIT for two or more consecutive years in 2010-2020. Two or more years provide sufficient number of firms to be analyzed and provide sufficient time for firms to deal with the declining performance. The population of this study is non financial firms listed in IDX in 2010-2020 with total number of 464 firms. The samples are manufacturing firms that experience declining EBIT for two consecutive years with the total number of 373 firms.This study use cross-sectional data. Delisted and bankrupt firms are excluded from the sample.

Measurement

The variables used in this study are independent variables, dependent variables, and control variables (Pandey, 2015). The independent variables are agency monitoring variables that consist of:
Management Ownership (Mgt), measured using the percentage of stock ownership by commisioner, directors or managers.

Mgt = % shareholding by commisioner, director or managers

Using dummy variable noted 1 if any management ownership, 0 otherwise
Institutional Ownership (Inst), measured using the percentage of stock ownership by foreign and domestic entities.

Inst = % shareholding by dometsic and foreign financial entities

Using dummy variable denotes 1 if there is institutional ownership about 20% (Andress, 2008), and 0 lower than 20%.

Family Ownership (fam), measured using the percentage of stock ownership by family or owner
Using dummy denotes 1 if there is family ownership and 0 otherwise.
The dependent variables consist of:

Assets Divestment (DA)
Assets divestment is percentage decline in fixed assets or sales of fixed assets form t-1 until t during research period (percentage/%)

Dividend cut (DC)
Dividend Cut is percentage decline in dividend payment from t-1 until t during research period (percentage/%)

The control variables consist of:
Liquidity (Liq)
Liquidity measured using current ratio computed by dividing current assets with current liabilities

Liq = (currents assets/current liabilities)100%

Firm size(Size)
Firm size measured using natural logarithm of total assets (Pandey, 2015, Koh *et al*., 2015)

Size = ln Total Assets

Inflation (*Inf*), Inflation measured using annual rate of inflation in Indonesia.

Analysis Technique

The technique used to analyze the data is OLS regression using Stata program (Bethel & Liebeskind, 1993). After the prediction variables are identified, the OLS regression is performed by entering the variables in the model one by one. The OLS regression model is:

$$Y_{DA,DC} = \beta_1 + \beta_2 INSID_t + \beta_3 INST_t + \beta_4 FAMt + \beta_5 \mathit{SIZE}_t + \beta_6 LIQ_t + \beta_7\ INFt + \mu_i \text{........................} (1)$$

where:
i and t : shows the number of companies and time respectively.
YDA : Assets Divestment
YDC : Dividend Cut
INSID : insider ownership or management (dummy variable)
INST : ownership of the company by the institution. (dummy variable)
FAM: family ownership (dummy variable)
SIZE : is the size of the company calculated by the natural logarithm of total assets.
LIQ : is the company's liquidity ratio measured by the current ratio.
INF : annual inflation (macroeconomic)

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4. Result and Discussion

Result

Table 1 presents descriptive statistics for the variables used in the study with a sample of distress companies listed on the Indonesia Stock Exchange other than insurance banking companies and financial institutions. The variable of management ownership or insider ownership (IOWN) is the percentage of share ownership by commissioners, directors and managers (dummy), institutional ownership (INST) is the percentage of share ownership by foreign and domestic entities or institutions (dummy). Family Ownership (FAM) is share ownership by the family (dummy). Firm size (SIZE) is measured by the natural logarithm of total assets (%). Liquidity (LIQ) is the ratio of current assets and current liabilities (%). Inflation (INF) is the annual inflation rate (%).

Tabel 1
Descriptive Statistic

	mean	sd	min	max
YDA(%)	2.21	31.68	-13.972	587.63
YDC (%)	8.21	102.93	-400.00	740.00
IOWN	0.38	0.49	0.000	1.00
INST	0.73	0.45	0.000	1.00
FAM	0.60	0.49	0.000	1.00
SIZE	12.19	2.83	4.384	21.09
LIQ	2.07	2.20	0.030	26.11
INF	0.08	0.03	0.043	0.13
Observations	373			

Hypotheses Testing

We analyze the determining variables of financial restructuring strategy using OLS Regression on crossection data. As expected, the agency variables: management ownership and firm characteristics simultaneously affect on assets and financial restructuring strategy. Fit model is assessed from F test. Based on the result of analysis using Stata, we find that the proposed models. While the result of OLS regression analysis shows the determinant influence of assets and financial restructuring as follows: see Table 2

Table 2
OLS Regression Summary

	(1)	(2)
	Model_YDA	Model_YDC
IOWN	5.662^{*}	0.127
	(4.879)	(0.112)
INST	-0.398	-0.0331^{*}
	(1.846)	(0.124)
FAM	-3.479^{***}	0.0995^{**}
	(3.957)	(0.106)
SIZE	-0.489	0.0214^{*}

	(0.516)	(0.0203)
LIQ	-0.692*	-0.0185*
	(0.574)	(0.0247)
INF	-90.99*	0.361
	(70.42)	(1.883)
Constant	16.70	-0.251
	(14.07)	(0.329)
Observations	373	373
F test	31.16	10.76
Probabilty	0.0328**	0.0412**
Adjusted R^2	0.2225	0.2531
Root MSE	31.64	15.032

*) p<10%, **)p.5%, ***) p.1%

In order to produce an unbiased model, the classical assumption tests were carried out, namely normality, multicollinearity and heteroscedasticity (cross-section regression requirements). Based on this test, this research model has passed the normality test with a prob value. Z>5%, multicollinearity test with VIF value <5, and heteroscedasticity with prob value. Chi^2 >5% so it deserves to be analyzed further.

Discussion

Management/insider ownership in table 2, there is significant influence of this variable on firm decision in selecting assets divestment. Thus, the proposed hypothesis is supported. If we consider the direction of the positive relationship on the regression coefficient, it indicates that assets divestment strategy is favorable for firms with a larger managerial ownership structure. This result support Huang and Chen (2012); Pandey, *et al.* (2015);Lai and Sudarsanam (1997); Bethel & Liebeskind (1993); De Angelo (1990). This indicates that the greater the ownership of management, the more likely it is to choose asset divestment restructuring because the asset divestment restructuring is taken in order to sell fixed assets that no longer have economic value so that it can increase the company's capital in managing company operations. But management ownership have no impact on dividend cut restructuring activity, it maybe management ownership, which has a small percentage, does not have a voice in making corporate restructuring decisions. This finding support Iwasaki (2020).

Institutional ownership does not affect the choice of assets divestment, if we look at the negative direction on the regression coefficient, it indicates that the greater the institutional or outside ownership, the more the company does not like to restructure the divestment of assets.This finding is opposite by Pandey (2015) and Koh *et al*. (2015). However, institutional ownership has been shown to have a significant negative effect on dividend cut restructuring, it supported by Knyazera (2011) who states that institutional ownership is related with dividend policy. This shows that the greater the external ownership, the company does not like dividend cut restructuring, possibly because the institutional owner is an institution that is able to control the company so that the dividend cut policy will give a negative signal to the company to shareholders.

Family ownership has a significant effect on the probability of the company choosing the restructuring of the divestment of fixed assets and dividend cut. Family ownership has a negative effect on asset divestment, it indicates that the greater the family ownership, the less likely it is to do the restructuring of fixed assets divestment. But family ownership has a significant positive effect on dividend cut restructuring. This shows that the greater the family ownership, the greater the dividend cut restructuring activity carried out by the company. The family as the owner of the company will consider cutting dividend payments because they prioritize retained earnings for long-term investment in order to increase the value of the company.

Firms that experience declining performance will try to restore their condition, manager as the one who responsible in managing the firm will choose restructuring strategy that will include stakeholders with the main objective of maximizing stockholders value. This study test the effect of ownership structure and firm characteristics on the selection of corporate restructuring strategy measured using assets divestment, management turnover and dividend cut. Based on the analysis result, we find empirical evidence that ownership structure affect the decision of corporate restructuring in Indonesia both simultaneously and partially. This finding is consistent with the finding in previous studies, which proves that the variables of agency: ownership structure have an effect on the tendency of firms to choose assets divestment, management turnover and dividend cut strategy.

The results of this study can prove empirically about the impact of agency monitoring variables through ownership structure and company characteristics as a control variable on asset divestment and financial restructuring strategy and add references in financial management, especially corporate restructuring theory. The results of this study are expected to produce a mapping of restructuring strategy choices based on the determining variables so that they are able to make the decision to choose the most appropriate restructuring strategy. Future studies may focus on another strategy such as business and management restructuring. The implication of this study is providing empirical support on the influence of agency variables on the decision in firm corporate restructuring strategy.

5. Conclusion

In this study, we examine distressed companies in Indonesia with a sample of 373 companies with the theme of the effect of ownership structure on asset and financial restructuring (asset divestment and dividend cut). Table 2 states that management ownership and family ownership have an effect on asset divestment restructuring. Institutional ownership and family ownership also have a significant effect on asset divestment restructuring and dividend cut. However, we also find evidence that management ownership has no effect on dividend cut restructuring and institutional ownership has no effect on asset divestment.This study still contains the limitation is selecting the proxy that determine the decline in firm performance. This due to the database on the firms that experience declining performance is not available, thus we employ a proxy and the fit in selecting a proxy becomes a limitation. Besides that, this study only focused on one restructuring strategy that is asset divestment and financial restructuring. Thus the finding cannot provide the alternative of restructuring strategies for decision maker.

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