

Ownership Structure and Financial Performance: An Empirical Study of Listed Airlines Industry in Asia and Australia

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— *Review of* —
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ABSTRACT

The aims of this research is obtaining the empirical evidence about the effect of ownership structure on airlines financial performance. The independent variables of this research consisted of foreign ownership, government ownership, and institutional ownership with the control variable are firm's size, while the dependent variable in return on equity (ROE). The sample of this research consist of 76 annual reports of airlines industry in Asia and Australia from 2010 until 2015. This research is quantitative research which the sampling method is purposive sampling. Data of ownership structure, firm size, and return on equity collected from annual reports. The analysis of this research is multiple regression analysis. The result of this research showed that foreign and government ownership have the positive effect on financial performance of airlines, while the institutional ownership and firm size have no positive effect to the financial performance (return on equity). There is no difference between the financial performance of airlines in Asia and Australia.

Keywords: return on equity, ownership structure, foreign ownership, government ownership, institutional ownership, firm size.

1. INTRODUCTION

The role of shareholders in a company becomes more important in determining the policies in attaining financial performance. The role of shareholders is closely related to the capital ownership structure. Meanwhile capital ownership structure, which is associated with the increase of company performance, becomes one of the crucial and controversial issues in Asia (Wiranata and Nugrahanti, 2013). Ownership structure is believed to have an effect on company operation, which later led to the company's financial performance.

The structure of capital ownership in a company is closely linked to the agency theory. Jensen and Meckling (1976) define agency relationship as a contract of a principal to appoint

another person (the agent) to provide services, including providing power to make decisions. The agency theory describes how an agent works for the shareholders in a company.

Research related to the capital ownership structure previously had been done by Zouari and Taktak (2014) who find that the business combination between family and investors has benefits towards the company's performance. Zeitun and Tian (2007) explains that ownership structure has a significant effect on the financial performance. Abdelsalam, El-Masry, and Elsegini (2008) explain that a company with a high equity returns and institutional ownership will generate a higher dividend payment. This dividend payment is related with financial performance achievement.

The ownership structure is existed in each company, airline companies are not an exception. The aviation business in the past few years has developed rapidly, especially in Asia. However, airlines companies' financial performance is not aligned with the rapid growth of this industry. The global airline industry is currently facing a major crisis which illustrates a bleak long-term prospect (Jayanti and Jayanti, 2011). The industry report from the UK and international airline associations have warned that the airline industry is currently facing the threat of a financial losses period in the last four consecutive years as the result of the increase in oil prices (Assaf and Josiassen, 2009).

Based on the phenomenon and previous research, we examine further the effect of ownership structure on the financial performance of airlines companies. This study is a modification of the research conducted by Ghazali (2010), Wiranatara and Nugrahanti (2013), Mule et al. (2015), and Alzoubi (2016). The research of Wiranata and Nugrahanti (2013) shows that foreign ownership and leverage has a positive effect on companies' profitability, while family ownership has a negative effect on the companies' profitability, but other variables - namely government ownership, management ownership, institutional ownership, and firm size does not have an effect on company profitability. Furthermore, the difference of this study with the previous research is the use of ROE as companies' performance measurement, whereas past research tends to use Return on Assets (ROA). In addition, this study uses heteroscedasticity test and glejser test, while previous research studies using test ZPRED (predicted value) and SRESID (residual value).

This study focused on the airline industry in Asia and Australia because the aviation industry in Asia and Australia is undergoing a fundamental changed driven by the market liberalization, changes in business models, and a strong competition with the low-cost carriers. Meanwhile in some parts of the region the political intervention to the management of national state-owned airline has already started to decrease (Welford, 2010: 39).

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory is closely associated with the shareholders and their agents, or managers, this theory explains about the separation of ownership and control. Shareholders involve agents or manager to run and control the company. Berle and Means (1932) (in Yosra and Sioud (2011: 284)) mentions that professional managers provide effective control on a company as a form of an extension of power from the shareholders. The existence of agents or manager is expected to maximize the financial performance of companies thus it can provide benefits to the shareholders or owners of the companies. Jensen and Meckling (1976:

308) describe the relationship between shareholders with an agent or manager, which is known as the agency relationship, as follows.

“Agency relationship as a contract under which one or more person (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent”

Foreign Ownership

Foreign ownership is one of the parts of stock ownership structure in a company. Foreign ownership is considered as positive factor for a company development. Nugrahanti and Novia (2012: 153) states that multinational companies have some advantages (competitiveness sources) that are not owned by the domestic companies, namely: the scale and scope of economic, marketing expertise and managerial skills, technology and innovation, financial strength, as well as domestic competition.

According to Farooque, et al. (2007: 1455) foreign ownership is a portion of the outstanding shares that are owned by foreign investors over the total outstanding share capital. Ghazali (2010: 109) find that the ownership variables - namely government ownership and foreign ownership, do have a significant effect on the corporate performance in Malaysia. Wiranata and Nugrahanti (2013: 15) state that foreign ownership and leverage positively affects company profitability, while the family ownership is found to have a negative effect on the company's profitability.

Based on the arguments above it can be seen that most of the previous research find that the structure of foreign ownership has a positive effect on the companies' financial performance. Furthermore, it is mentioned that foreign ownership can improve the quality of corporate financial statements. Thus, this study aims to examine further the effect of the foreign ownership structure on the financial performance of airlines companies. Based on the theory and previous research, we proposed a hypothesis as follows:

H₁: Foreign ownership has a positive effect on airlines companies' financial performance.

Government Ownership

Government involvement in the business sector is a clear evidence of company privatization. One of the specific objectives of this privatization project is to restructure and ensure fairness in the society (Ghazali, 2010: 112). One of many ways performed by the government is through investing in a company.

Nugrahanti and Novia (2012: 164) examine the effect of government ownership on the bank performance and find that government ownership does not significantly affect bank performance. They consider that the government-owned companies have other objectives in social and political benefit rather than maximizing profits. Unlike private companies that focused on generating the maximum profit as their main objective (Shen and Lin, 2009: 454).

Al-Najjar and Kilincarslan (2016: 135) conducted a research related to the ownership structure and dividend payments in Turkey. The results show that all variables (foreign ownership, government ownership, family ownership and institutional ownership) does not have a significant effect on the dividend payment ratio. A company will pay the dividends if the company has a good performance and have their profit increases.

Zeitun and Tian (2007: 66) states that the ownership structure has a significant effect on the financial performance (measured using the Return on Equity (ROE)) and the

government share has a significant negative effect on the company performance (ROE) in Jordan. Arouri, et al. (2014: 117) states that the government ownership structure does not have a significant effect on the companies' performance.

The arguments above show that there are still some differences in the research results related to the government ownership structure effect on the companies' financial performance. One of the previous studies results states that there is no significant effect of the government ownership structure on the companies' financial performance, while other research states that there is a negative relationship between the government shares and the companies' performance. This study attempts to test further the effect of government ownership structure on the airlines companies' financial performance. Based on the theory and previous studies we formulate a hypothesis as follows.

H₂: Government ownership negatively influences the financial performance of the airlines company.

Institutional Ownership

According to Masdupi (2005), institutional ownership is a proportion of shares ownership measured in percentage of shares owned by institutional investors within a company. Juniarti and Sentosa (2009: 89) explains that institutional ownership is the percentage of company ownership owned by the institutional investors, such as investment firms, banks, insurance companies, institutions, or other companies. Nugrahanti and Novia (2012: 155) states that institutional ownership is the ownership or the percentage of shares owned by the domestic institutions.

Shleifer and Vishny (1997: 754) states that the involvement of institutional investors within a corporation is believed to enhance the shareholders' value as well as increasing their supervision function. The owners of an institution have a key role to supervise the companies in which they become the shareholders (Al-Najjar and Taylor, 2008: 920). Alzoubi (2016: 135) in his research conducted in Jordan find that the institutional ownership has a high effect or positively affects the companies' financial performance. Results of the study also show that the ownership structure has a significant effect on earnings management. This study attempts to test further the effect of institutional ownership structure on the financial performance of airlines companies. Based on the theory and previous studies we formulate a hypothesis as follows.

H₃: Institutional ownership positively affects the financial performance of the Airlines companies.

Firm Size

Niresh and Velnampy (2014: 57) states that firm size is a major factor in determining the profitability of a company. Firm size has more bargaining power on suppliers and competitors. Larger companies are capable to provide more benefits related to their profit, superior technology, and professionalism because they are controlled directly by the market (Mule, Mukras, and Nzioka, 2015: 378).

A research conducted in Kenya by Mule et al. (2015: 376) find that there is a positive relationship between the firm size and profitability (measured by the ROE). Changes in firm size can improve company's ROE listing in Nairobi. One of the measurements that show the

size of the company is companies' total assets value. Firm size can be measured using the log of total assets (El-Chaarani, 2014: 138).

Based on the explanation above, it can be seen that firm size has an important role in supporting the companies' financial performance. The firm size can provide a better bargaining position in certain market conditions. In addition, large companies using better technology in supporting their company's performance. This study tries to examine further the effect of firm size on the financial performance of airlines companies. Based on the theory and previous studies we formulate a hypothesis as follows.

H₄: Firm Size positively affects the financial performance of the airlines companies.

Difference in Financial Performance

Effective corporate governance plays an important role in the quality of financial report process (Nugrahanti and Novia, 2012: 151). Good Corporate Governance (GCG) can set the pattern of harmonious relationship between shareholders and management. Through the application of principles - transparency, accountability, responsibility, independence and fairness, this GCG concept can align the interests of shareholders with the managements' thus it can have a favorable impact on improving a company's financial performance. The best financial performance we could get from the probability level. The probability level significantly influenced by costs of quality (Tresnawati, Octavia, and Herawati, 2017).

Airline companies in Asia and Australia should be able to improve their profitability ratio to be competitive in the business sector. Profitability ratios measure a company's ability to generate profits, and greater profit means a better company's financial performance (Suudyasana and Fitria, 2015: 3). Based on the theory and previous studies we formulate a hypothesis as follows.

H₅: Asian airlines companies' financial performance is different with Australian Airlines companies' financial performance.

3. RESEARCH METHOD

This research aims to examine the effect of the independent variables and control variables on the dependent variable, namely the effect of ownership structure on the financial performance. The independent variables in this study are foreign ownership, government ownership, institutional ownership, and the control variable is the firm size. The dependent variable in this research is the airlines companies' financial performance of in Asia and Australia. The research data is obtained from the annual financial statements published by the airline companies on their company website.

The population in this study is the airline companies with 23 airlines from across Asia and Australia that has published its financial statements. Samples in this study consist of 14 airlines companies in Asia and Australia. Regarding to the criteria and cut off of the data outliers we obtained samples as 76 financial statements from airline companies in Asia and Australia.

4. RESULT AND DISCUSSION

This study uses independent variables, i.e. foreign ownership (ASNG); government ownership (PMRT), institutional ownership (INST), with firm size as control variables (SIZE), while ROE as the dependent variable. Kolmogorov-Smirnov test is used to examine

the normality. The result shows that the Kolmogorov-Smirnov value is 0.699 with 0.713 significance level, which is greater than 0.05 or 5%. This means that the data is normally distributed. Data population is distributed normally if the coefficient Asymp.Sig (2-tailed) is greater than $\alpha = 0.05$ (Ghozali, 2005). Multicollinearity test is conducted by looking at the tolerance value and Variance Inflation Factor (VIF). The test results revealed that multicollinearity does not occur if there is an independent variable that has a value tolerance less than 0.10 and has more than 10 VIF (Ghozali, 2005). Tolerance values of all the variables in the study are ranged from 0.431 to 0.711 with VIF ranged from 1.406 to 2.319, thus it can be concluded that multicollinearity does not occur. Heteroscedasticity test is conducted using the Glejser Test. According to Ghozali (2005), if independent variables has a statistically significant effect on the dependent variable (significance level less than 5%) then there is an indication of heteroscedasticity. The result of Glejser Test shows the significance value range from 0.092 to 0.946, which means that heteroscedasticity does not occur because it has a significance level that is greater than 0.05. The hypothesis test results are summarized briefly in the following table.

Table 1 The Result of Regression Test

Model	Unstandardized Coefficients		Sig.	Adjusted R Square
	B	t		
1 (Constant)	6.578	1.446	0.155	0.458
ASNG	0.771	5.725	0.000	
PMRT	0.532	4.591	0.000	
INST	0.323	1.499	0.141	
SIZE	-2.014	-1.263	0.213	

The regression model used in this study is as follows.

$$ROE = \alpha + \beta_1 ASNG + \beta_2 PMRT + \beta_3 INST + \beta_4 SIZE + e$$

Notes:

ROE	=	Return on Equity
ASNG	=	Foreign ownership
PMRT	=	Government ownership
INST	=	Institutional ownership
SIZE	=	Firm Size
E	=	Margin error

The adjusted R^2 value is 0.458 or 45.8%. This means that 45.8% of ROE variation can be explained by the three independent variables (foreign ownership, government ownership, institutional ownership, and a control variable, which is the firm's size), while the rest are caused by the external factors outside of this study.

Based on the statistical test we take the following conclusions. The results of statistical t-test, shows a significance level for this variable is 0%. This means that the significance obtained is less than 10%, which means that foreign ownership has a positive effect on the financial performance of the airline companies. This result support research results of Wiranata and Nugrahanti (2013) who states that foreign ownership has a positive effect on a company's profitability. Ghazali (2010) also mentioned that the ownership variables, namely

foreign ownership, has a significant effect on corporate's performance. Alzoubi (2016) also explains that foreign ownership has a high impact on the quality of financial reporting. Companies that have foreign shareholders and come from a developed country are capable to adopt better systems to improve their existed systems, thus the objective of financial performance that has been set can be achieved effectively. Moreover, the presence of shareholders who come from foreign countries indicates an additional monitoring scheme on a company's operation in achieving their targeted performance.

The results of statistical t-test, shows a significance for this variable is 0%. This means that the significance obtained is lesser than 10%, thus, government ownership has a significant positive effect on the financial performance of the airline companies. This result does not support the research conducted by Nugrahanti and Novia (2012) who studied the effect of government ownership on companies' financial performance. The results of this study indicate that government ownership does not significantly affect companies' financial performance. The result of this study also does not correspond to the research conducted by Al-Najjar and Kilincarslan (2016), who conducts a research on the structure of ownership and payment of dividends. The result shows that all variables (foreign ownership, government ownership, family ownership, and institutional ownership) do not have a significant effect on the dividend payout ratio. This means that companies that have a government ownership portion will seek to improve its financial performance, not only to reach their company target. Beside that, the government will also set a target amount of the benefit to be paid to the government. In addition, the government will also help in monitoring the financial performance of the company, thus the targets can be achieved with effectively.

Based on test results, it can be concluded that institutional ownership does not have a positive effect on the financial performance of the airline companies. The results of this study do not support the previous research conducted by Shleifer and Vishny (1997) who find that the involvement of institutional investors within a corporation is believed to enhance shareholders' value while increasing the monitoring function. In addition, the result of this research also contradicts with the results of research conducted by Al-Najjar and Taylor (2008), who find that the owner of the institution has a key role to monitor the companies in which they become the shareholders. This result indicates that the institutions that invest their fund into an airline company come from a smaller scale companies. In addition, the small companies that invest their fund in the airline companies are also in a small number so that it has no influence over decision-making policy. Policy making in a company, even though it is discussed together with other shareholders, usually is decided based on the largest shareholder opinion. However, it also performed by considering other stakeholders' proposals or suggestions.

Hypothesis test results show that the firm size does not have a positive effect on the financial performance of the airline companies. The results of this study do not support the results of a research conducted by Mule, Mukras, and Nzioka (2015) who find that there is a positive relationship between firm size and profitability (ROE). Moreover, the result also does not support the statement of Niresh and Velnampy (2014) who find that the firm size is a major factor in determining the profitability of a company. Large companies are capable to provide the greater things related to advantages, superior technology, and professional because they're controlled directly by the market (Mule, et al. 2015). The results of this study indicate that the firm size does not directly affect the company's financial performance. The

financial performance of the airline company is determined by their sales and profits rather than the firm size.

5. CONCLUSION AND LIMITATION

Based on the analysis and discussion of the research hypotheses it can be concluded that foreign ownership positively affects the financial performance of airlines companies in Asia and Australia. Government ownership also has a positive effect on the financial performance of airlines companies in Asia and Australia. Meanwhile institutional ownership does not affect the financial performance of the airline companies positively. The size of a company does not have a positive effect on the financial performance of the airline companies. Financial performance of airlines companies in Asia and the financial performance of airlines companies in Australia have the same variance, which means that there is no significant difference in the average of ROE between airlines companies in Asia and the airline companies in Australia. Limitations of this study are: several airline companies that have not published their financial statements, in addition, this study also does not consider the factors that is beyond the control of management roles, such as the global economics crisis, government regulations, and others.

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