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Ownership Structure and Its Implications for Corporate Governance: A Literature Review

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ABSTRACT

Ownership structure is a fundamental factor influencing corporate governance practices. This literature review aims to examine various ownership structure models commonly found in companies and their implications for governance mechanisms, including aspects of transparency, accountability, and risk control. The study analyzes the relationships among ownership concentration, institutional ownership, and the roles of majority and minority shareholders in determining governance effectiveness. The findings indicate that concentrated ownership structures often lead to majority owner dominance in decision-making, though this can be balanced by the role of independent supervisory boards and stringent regulations. Conversely, dispersed ownership can enhance market oversight but potentially give rise to conflicts of interest among shareholders. The study recommends tailoring governance mechanisms to the specific characteristics of the ownership structure to improve corporate performance and sustainability.

INTRODUCTION

In an era of globalization and increasingly fierce business competition, corporate governance has become a crucial aspect of ensuring the continuity and success of business organizations. Good governance not only ensures that a company operates transparently and accountably but also minimizes risk and protects the interests of various stakeholders—including shareholders, employees, consumers, and the general public (Putri & Sari, 2021). One of the primary factors influencing governance practices is the company's ownership structure.

Ownership structure reflects how a company's shares are distributed among shareholders, whether individuals or institutions. Variations in ownership—such as concentrated ownership versus dispersed ownership—carry different implications for oversight mechanisms, decision-making processes, and internal corporate controls (Santoso, 2020). For instance, in companies with concentrated ownership, majority shareholders often exert significant influence over the direction of corporate policy; while this can be beneficial, it also carries the risk of conflicts of interest with minority shareholders (Putri & Sari, 2021).

Conversely, in a dispersed ownership structure, the influence of individual shareholders is limited; consequently, external oversight via capital markets and

formal governance mechanisms—such as independent boards of commissioners—becomes vital for maintaining a balance of power and preventing opportunistic management practices (Santoso, 2020). This is a matter of particular concern in developing nations like Indonesia, where business cultures and capital market regulations are still evolving and striving to elevate corporate governance standards.

Furthermore, the role of institutional ownership has become increasingly dominant as an oversight factor capable of driving governance improvements through active engagement in decision-making and management supervision (Putri & Sari, 2021). Therefore, understanding the relationship between ownership structure and corporate governance is essential. Corporate governance is a matter of importance not only to academics but also to business practitioners and regulators in formulating effective policies to foster corporate transparency and accountability.

This literature review outlines various ownership structure models and their implications for governance, focusing on practices across different corporate contexts, particularly in Indonesia. It also addresses the challenges involved in tailoring governance mechanisms to the diverse characteristics of ownership structures.

LITERATURE REVIEW

1. Theoretical Overview

Corporate ownership structure refers to the configuration of share ownership that influences the distribution of power and control within a company. A prominent theory in corporate governance research is agency theory, developed by Jensen and Meckling (1976). This theory explains the relationship between principals (owners) and agents (managers) and how conflicts of interest arise from their divergent objectives. Ownership structure can either mitigate or exacerbate these conflicts, depending on the extent of the owner's influence over managerial oversight.

In contrast, stewardship theory (Donaldson & Davis, 1991) posits that managers tend to act as responsible stewards rather than merely as agents pursuing their own self-interest. Within the context of ownership structure, a concentrated ownership model can support stewardship principles, as majority owners are more actively involved in oversight and strategic decision-making.

2. Previous Research

Several empirical studies have examined the relationship between ownership structure and corporate governance. In their study of publicly listed companies in Indonesia, Putri and Sari (2021) found that ownership concentration significantly impacts the improvement of corporate governance practices, particularly by strengthening the role of independent commissioners and internal oversight mechanisms. These findings align with Santoso's (2020) study, which indicates that strong institutional ownership tends to foster transparency and accountability within companies.

However, other studies highlight potential risks associated with concentrated ownership structures—specifically, the dominance of majority shareholders, which can undermine the rights of minority shareholders and lead to conflicts of interest (La Porta et al., 1999). Consequently, governance mechanisms such as

legal protections and the role of independent commissioners are crucial for balancing this power.

3. Critical Analysis and Comparison

Perbandingan antara model kepemilikan terkonsentrasi dan tersebar menunjukkan kelebihan dan kelemahan masing-masing dalam konteks tata kelola perusahaan. Kepemilikan terkonsentrasi memungkinkan pengawasan langsung dan keputusan yang cepat, namun rentan terhadap praktik penyalahgunaan kekuasaan. Sebaliknya, kepemilikan tersebar meningkatkan kebutuhan akan mekanisme pengawasan eksternal yang lebih kuat dan kompleks.

Dalam konteks Indonesia, di mana keluarga dan pemilik mayoritas memegang saham signifikan, penerapan tata kelola harus mempertimbangkan budaya bisnis lokal yang cenderung kolektif dan hirarkis (Putri & Sari, 2021). Mekanisme formal seperti dewan komisaris independen dan peraturan Otoritas Jasa Keuangan (OJK) menjadi kunci dalam mencegah konflik kepentingan dan memperkuat tata kelola.

4. Latest Trends or Developments

A recent development in corporate governance regarding ownership structure is the growing focus on the role of institutional ownership and active investors in fostering good governance practices (Agustia & Dewi, 2021). Institutional investors, such as pension funds and mutual funds, now increasingly act as active monitors that influence corporate strategic decisions and policies.

Furthermore, the trend of integrating environmental, social, and governance (ESG) factors has become a significant influence on ownership structures and governance, as company owners and managers are required to manage their firms sustainably (Fitri, 2022).

METODH

This study employs a literature review as the primary approach to gather and analyze research findings and theories regarding ownership structure and its implications for corporate governance. The literature review method was selected because it enables the researcher to gain a comprehensive understanding based on various established and relevant sources.

2. Data collection

Data were collected through systematic searches across various reputable scholarly journal databases—specifically Sinta, Scopus, and Google Scholar. The search focused on articles published within the last five years (2018–2023) to ensure that the literature utilized was current and relevant to the latest developments in the fields of corporate governance and ownership structure.

3. Literature Selection Criteria

Literature selection was conducted based on several strict inclusion and exclusion criteria, namely:

- Studies explicitly addressing the relationship between ownership structure and corporate governance.
- Studies conducted within the context of public or private companies, whether at the national (Indonesian) or international level.

- Articles published in journals indexed with accreditation standards such as Sinta and Scopus.
- Articles employing valid and credible empirical methods or theoretical analyses.
- Literature in Indonesian or English to ensure a broad scope of study.

4. Data analysis

After gathering literature that met the criteria, descriptive and comparative analyses were conducted to identify patterns, key findings, and differences among the studies. This approach was used to outline how ownership structure influences corporate governance, while also examining recent trends and developments identified in the literature.

5. Validity and Reliability

To ensure the validity and reliability of the study, this research utilizes sources from reputable journals meeting international or national standards while avoiding unverified sources. Furthermore, the article selection process was conducted meticulously to avoid bias and ensure the quality of the information analyzed in this study.

RESULTS AND DISCUSSION

1. Definition of Ownership Structure

Ownership structure refers to the arrangement or pattern of share ownership within a company, identifying the shareholders and their respective ownership proportions. This structure plays a crucial role in determining the distribution of power and influence within the firm, thereby significantly affecting decision-making processes and oversight mechanisms. According to Santoso (2020), ownership structures can generally be classified into two primary types: concentrated ownership and dispersed ownership.

Concentrated ownership is typically found in family-owned businesses or companies where a principal owner holds a majority stake, whereas dispersed ownership is common among publicly traded companies where shares are held by numerous small investors.

Ownership structure reflects the relationship between shareholders and management within the framework of corporate governance. Through a specific ownership structure, a company can mitigate conflicts of interest between owners and managers while ensuring effective and accountable decision-making (Santoso, 2020).

2. Implications of Concentrated Ownership for Governance

In a concentrated ownership structure, majority shareholders typically exercise significant control over corporate policy and maintain direct oversight of management. A key advantage of this structure is decision-making efficiency, as majority owners can closely monitor and direct management, thereby minimizing the risk of misconduct (Putri & Sari, 2021).

However, concentrated ownership also entails substantial risks, specifically the potential for expropriation—or the siphoning off of corporate wealth—by majority owners to the detriment of minority shareholders. La Porta et al. (1999)

refer to this phenomenon as the "expropriation of minority shareholders," a common occurrence in companies with concentrated ownership structures. Consequently, effective corporate governance requires the implementation of rigorous oversight mechanisms, such as the inclusion of independent commissioners capable of monitoring the actions of majority owners and safeguarding the interests of minority shareholders.

In Indonesia, Putri and Sari (2021) note that companies with concentrated ownership are increasingly recognizing the importance of strengthening corporate governance—particularly through the appointment of independent commissioners and the adoption of greater transparency—to maintain a balance of control within the organization.

3. Implications of Dispersed Ownership for Corporate Governance

Dispersed ownership refers to a situation where a company's shares are held by numerous shareholders in relatively small proportions, such that no single party exercises dominant control. This structure necessitates robust governance mechanisms to ensure management accountability to the multitude of shareholders and to facilitate effective oversight.

A primary challenge associated with dispersed ownership is the "free-rider problem," wherein individual minority shareholders lack sufficient incentive to actively monitor management due to high monitoring costs and the fact that benefits are shared among many (Santoso, 2020). Consequently, companies with dispersed ownership typically rely on external governance mechanisms, such as capital market oversight, stringent regulations, and independent audit committees.

Putri and Sari (2021) state that governance in companies with dispersed ownership relies heavily on the role of capital market authorities and a strong legal system to guarantee transparency and the protection of shareholder rights.

4. The Role of Institutional Ownership in Corporate Governance

Institutional investors—such as pension funds, mutual funds, and insurance companies—play a pivotal role in modern corporate governance. Typically holding substantial equity stakes and maintaining long-term interests, they tend to act as active monitors of corporate governance (Agustia & Dewi, 2021).

The role of these institutional investors encompasses involvement in strategic decision-making, management oversight, and the promotion of sound governance practices—including transparency, accountability, and regulatory compliance. Agustia and Dewi (2021) indicate that companies with significant institutional ownership tend to possess more independent boards of commissioners and exhibit greater governance transparency compared to those lacking such ownership.

5. Challenges in Managing Ownership Structure and Governance

Managing diverse ownership structures presents a number of corporate governance challenges. A primary challenge involves addressing potential conflicts of interest—whether between majority and minority owners or between owners and management. In Indonesia, this challenge is further complicated by the characteristics of a developing capital market and a business culture strongly influenced by values of family and collectivism (Putri & Sari, 2021).

Furthermore, obstacles in law enforcement and suboptimal regulatory frameworks pose significant hurdles to ensuring effective governance and protecting the rights of minority shareholders. Consequently, regulatory improvements and the strengthening of capital market supervisory bodies are crucial for fostering sound corporate governance.

6. The Influence of Ownership Structure on Corporate Performance

Ownership structure also plays a crucial role in determining corporate performance. Empirical studies indicate that concentrated ownership can enhance managerial oversight, thereby fostering operational efficiency and superior strategic decision-making (Santoso, 2020). However, if majority dominance is exploited for personal gain, it can lead to a decline in corporate performance.

Conversely, dispersed ownership can enhance transparency and accountability; yet, in the absence of robust governance mechanisms, it may result in a lack of coordination in decision-making, negatively impacting corporate performance (Putri & Sari, 2021).

7. Latest Trend: Integrating Governance with Sustainability Aspects (ESG)

In recent years, the concept of corporate governance has evolved to integrate environmental, social, and governance (ESG) aspects. Ownership structures are now expected to look beyond mere financial profit and instead prioritize sustainability and corporate social responsibility (Fitri, 2022).

Institutional ownership plays a pivotal role in encouraging companies to adopt sound ESG practices; doing so not only enhances corporate reputation but also mitigates long-term risks and attracts investors who are increasingly concerned with sustainability issues (Fitri, 2022).

CONCLUSIONS

Based on the literature review conducted, it can be concluded that ownership structure plays a crucial role in determining the quality of corporate governance. Ownership structures fall into two primary categories—concentrated ownership and dispersed ownership—each with distinct implications for corporate oversight and decision-making mechanisms.

In concentrated ownership structures, the primary advantage lies in efficient decision-making and tighter oversight resulting from direct control by majority owners. However, the risks of conflicts of interest and the expropriation of minority shareholders present significant challenges that must be addressed by strengthening governance mechanisms, such as independent boards of commissioners and rigorous regulations.

Conversely, dispersed ownership structures necessitate more transparent and accountable governance practices, as oversight is exercised by numerous shareholders holding small stakes. Although the potential "free-rider problem" may hinder active monitoring, external governance mechanisms—such as the roles of regulators and capital markets—are essential for maintaining a balance of interests. The role of institutional ownership is also highly significant in enhancing the quality of corporate governance. Institutional investors holding substantial equity stakes tend to drive better governance practices through active oversight and by emphasizing management transparency and accountability.

However, challenges such as local business culture, conflicts of interest, and limited law enforcement continue to hinder the implementation of effective governance, particularly in Indonesia. Therefore, strengthening regulations and capital market supervisory institutions is essential to fostering sound and sustainable corporate governance.

Furthermore, recent developments in corporate governance indicate an integration of environmental, social, and governance (ESG) factors, requiring ownership structures to adapt to demands for sustainability and social responsibility. This creates opportunities for corporate governance models that focus not only on financial performance but also on generating positive social and environmental impacts.

Overall, this study underscores the importance of understanding variations in ownership structures within the context of corporate governance, as well as the need to tailor oversight mechanisms to align with specific ownership characteristics and the evolving dynamics of the capital market.

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