Management’s Chinese Zodiac and ownership to firm performance

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ABSTRACT: The research examines the effect of Chinese Astrology (shio) and managerial ownership on firm’s performance. The research also examines other issue of agency problem which is called managerial ownership. The separation between the principal with ownership function and agent with control function leads to a potential conflict called agency conflict. Sample is manufacturing firms listed in Indonesia Stock Exchange for the period of 2013-2015. The results of this study indicate that Chinese Zodiac of the CEOs have no effect on the company’s performance, while managerial ownership positively affects the company’s performance. Financial ratios used to measure company's performance are profitability ratios, such as Return on Assets (ROA) as the main parameter and Return on Equity (ROE) as supporting parameter or robustness with no significant effect which aims to confirm the effect of managerial ownership on the company's performance.

Keywords: Chinese astrology (shio), managerial ownership, firm’s performance.

1 INTRODUCTION

Chinese astrology is well accepted and recognized by Indonesian especially Chinese Indonesian. However, research on Chinese Astrology in finance field of study is very rare in Indonesia. How Chinese astrology or shio affect firm performance is not yet studied in Indonesia. This research tries to examine the effect of shio to performance of the firm. Another issue arises from firm performance and manager’s shio is managerial ownership. This research also argued that managerial ownership also affects firm performance, especially from the agency theory perspective.

Shio is cultural indicator that inherited from many generations of Chinese Indonesian, and in the other hand the managerial ownership also plays a significant role in explaining performance of the firm. This research will divide between combination of shio that called Triangle of Affinity and Circle of Conflict which are between manager’s shio and year of observation.

Hu & Zhou (2006), Chung et.al. (2008), and Lu-eeng & Horwitz (2010) found that managerial ownership structure has positive effect on performance. The finding is supported by Alves (2012) and Zakaria, Purhanudin, & Palanimally (2014).

However, research of Fama & Jensen (1983) found a negative effect of managerial ownership and performance. The negative effect called as entrenchment hypothesis. Meanwhile the positive effect is known as alignment hypothesis. The entrenchment hypothesis is supported by Liang, Lin & Huang (2011), and Irina & Nadezhda (2009).


Hermalin & Weisbach (1991) showed that positive relationship will occur if the managerial ownership below 1%, and negative relationship occur when managerial ownership between 1-5%. However, the relationship becomes positive effect again if the portion of managerial ownership between 5-20% and beyond 20% is a negative relationship.

Amran & Ahmad (2013) found that below 27% managerial ownership will tend to pursue their own interest and decrease the performance of the firm significantly.

Chinese astrology uses zodiac as one of the foundations in guiding life and is believed to be able to explain the nature, character, health, career, sustenance and soul mate and fortune of human life (Ol-
viani 2015). Each year is marked with zodiac according to the rotating cycle of rats, odors, tigers, rabbits, dragons, snakes, horses, goats, moons, chickens, dogs and pigs (Robiyanto, Hersugondo & Puryandani 2015). Every twelve years, the zodiac cycle will recur.

Meisami (2013) examines the effect of Chinese astrology on stock return and argues that Chinese astrology will significantly influence the thinking, feeling and decision-making of a person. This study was conducted using stock return data on Hong Kong Stock Exchanges (HSI) during 1964-2013 and S & P 500 during 1950-2011. The research was based belief that the zodiac affects the return earned in accordance with the character of the animals they represent. The study found that mouse years had a higher average return and the snake had a lower average return. On the other hand, for the S & P 500, snakes and chickens showed a lower average return compared to other zodiacs.

In the context of agency theory, managerial ownership is seen as one way to reduce agency conflict (Jensen & Meckling 1976, Fama & Jensen 1983, Cho 1998, Davies et.al. 2002, Morck et.al. 1988, Hu & Zhou 2006). Mahadwartha (2004) explains that managerial ownership is one of the remuneration policy programs that can be used to reduce agency problems. Jusoh, Ahmad & Omar (2013) revealed that companies with concentrated ownership will reduce the diversity of shareholders’ interests. Martsila & Meiranto (2013) stated that managerial ownership is one form of good corporate governance (GCG) implementation by involving managers in company ownership.

2 RESEARCH METHODS

2.1 Variables and Framework

The dependent variable of company performance is Return on Assets (ROA) from manufacturing company in Indonesia stock exchange during period 2013-2015. The total year of company observation is 339 years of company observation. The control variable in this study is firm size.
This research also tested for classic assumption of OLS, multicollinearity, autocorrelation, and heteroscedasticity.

2.2 Statistical Methods

The use of the OLS method in the study because of the consideration that this method is appropriate to test the "Line of Best Fit" model or the sum of squares of the deviations between the observation points and the regression line is minimum. (Tu, et.al. 2007).

The equation model in the research is tested by using the least squares method (ordinary least squares) with the formulation as follows:

\[ \beta_{\text{ERF}} = \alpha_1 + \beta_1 \text{SHIO} + \beta_2 \text{MOWN} + \beta_3 \text{SIZE} + \varepsilon_1 \]  \hspace{1cm} (1)

3 RESULT AND DISCUSSION

A summary of matches and incompatibility of zodiacs in the period 2013-2015 is shown in Table 1. This table provides the basis for assessing the corresponding relationship between zodiac manager and related zodiac year.

<table>
<thead>
<tr>
<th>No.</th>
<th>Shio</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Rat</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Ox</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>Tiger</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>Rabbit</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>Dragon</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>6</td>
<td>Snake</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>7</td>
<td>Horse</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>8</td>
<td>Goat</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>9</td>
<td>Monkey</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>10</td>
<td>Rooster</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>11</td>
<td>Dog</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>12</td>
<td>Pig</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>t-stat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-0.053775</td>
<td>-7.637130***</td>
</tr>
<tr>
<td>Shio</td>
<td>-0.008099</td>
<td>-1.074633</td>
</tr>
<tr>
<td>MOWN</td>
<td>0.062361</td>
<td>3.426249***</td>
</tr>
<tr>
<td>Size</td>
<td>0.013069</td>
<td>16.68340***</td>
</tr>
</tbody>
</table>

This research recommends corporate shareholders and management not to pay much attention to Chinese astrology which is often used as a medium to describe the character, emotion and life of a person according to the nature of each animal as a consideration in predicting the likelihood of luck management and company performance. On the other hand, in order to reduce agency conflicts between man-
management and shareholders, the mechanism that can be used is to increase managerial ownership. If there is managerial ownership, it is strongly recommended to maximize total assets in order to increase profitability opportunities. An increase in total asset usage will increase the profit potential. Large companies can use total assets to maximize corporate investment, which will also lower the company's financial risk.

For the creditor, it is recommended to improve the control of the company's management, because based on the result of research that firm size have positive effect to company's financial performance. This shows that in general a company that has a high performance is a large company because the company has sufficient internal funds to finance the company's investment. Small companies have a smaller total asset than larger companies. Therefore, creditors are recommended to improve control over management for large firms because the possibility of agency conflict occurring is between creditors versus manager and shareholder.

For the next researcher, since this research focuses on the analysis of Chinese Astrology Effect which is very rarely studied in Indonesia, it is recommended to add other exogenous variables that have not been included in this research, such as using two element concepts (yin and yang), and five basic elements (water, wood, fire, soil and metal), so as to improve the accuracy of the research results.

REFERENCES


