

## The Rise of Tower Provider What Factors Impact Company's Performance?

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### *Abstract*

*This study aims to determine the effect of Tenants, Financial Leverage, Foreign Owned Subsidiary and institutional shareholder on company's performance. The population consist of tower provider company listed on Indonesia Stock Exchange and we use time period of 2012–2017. Using purposive sampling method, we acquired five companies nonrelated to each other until 2017. This study conducts panel data regression statistic. The result showed that only institutional shareholder significantly impacts company's performance. With the help from institutional ownership influence and connection tower provider company may get competitive advantage. Tenants do not give significant impact because they have pressure to decrease their expense to maintain their profitability in tight competition. For leverage, benefits obtained from debt such as quick cash for acquisition can be out weight by burden from increasing financial cost and foreign denominated debt may not help either with Rupiah condition.*

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### **1. INTRODUCTION**

Telecommunication tower providers (Tower Providers) gained its name on the spotlight on 2012 when PT Tower Bersama Infrastructure Tbk bought a total of 2,500 Towers from PT Indosat Tbk (Indosat Annual Report, 2012). The purpose of this transaction was to pay Indosat's financial obligation (Kontan, 2014). In 2014 another Tower Provider, PT Solusi Tunas Pratama Tbk bought a total of 3,500 towers from PT XL Axiata Tbk (EXCL) for 5,6 Trillion Rupiah (XL Axiata Annual Report, 2014). In 2016 EXCL sold its Towers again to PT Profesional Telekomunikasi Indonesia (Protelindo) a subsidiary of PT Sarana Menara Nusantara

Tbk. This agreement stated that EXCL will sold 2,500 towers to Protelindo for 3,5 Trillion Rupiah. In 2017 PT Sampoerna Telecommunication sold all its towers (371 towers) to PT Inti Bangun Sejahtera Tbk (IBST) for 414 Billion Rupiah. These phenomena give a signal that mobile operator will be more focus to conduct their core business, to bring better user experience and fee for their subscribers rather than making investment in tower infrastructure (A.T. Kearney, 2012) (Basaran, Cetinkaya and Bagdadioglu, 2014).

In Indonesia there are four major players in tower provider Industry PT Sarana Menara Nusatara Tbk, PT Tower Bersama Infrastructure Tbk, PT Solusi Tunas Pratama Tbk and PT Daya Mitra Telekomunikasi. As of 2016 there were at least 80,000 telecommunication towers, 50.000 of it owned by independent tower provider. The only mobile operator that still have significant numbers of tower is PT Telekomunikasi Seluler (Telkomsel) a subsidiary of PT Telekomunikasi Indonesia Tbk (TLKM) for at least 17.000 towers, (Kontan, 2016).

At a glance, this tower provider business seem promising with mobile phones are not considered as luxurious good but as essential tool for day to day activity and mobile operator willingly sale their tower for efficiency (Maisyarah, 2018). But if we look deeper there are some issues haunted this business, there are pricing, investment and operational cost and dependency on mobile operator. First, there is a cheap tariff war among mobile operator, according to Santoso (2018) Cheap data or phone tariff is still considered the most effective weapons to attract more subscribers. It is proven by most of advertisements from all mobile operator's that revolve around cheap tariff and bonus provision. This tariff war will impact on mobile operator's revenue and force them to renegotiate its agreement on tower lease to decrease operational expenditure. Second one is investment and operational cost, building and maintaining a telecommunication tower and its supporting infrastructure are not easy and cheap. According to American Tower (2010) it takes at least \$40 thousand - \$60 thousand per tower In India, it may cost more in Indonesia because of its geographical difference, transportation cost, foreign exchange fluctuation for the steel material and natural disaster risk. In addition, most of major tower providers still relying on bank loan to finance its activity. Some major tower provider also established subsidiaries abroad to seek for cheaper loan. The third one is dependency on mobile operator. Most of tower provider tenants are mobile operators. If there is a major downtrend in mobile operator industry, tower provider will face bigger risk in maintaining its revenue. The number of mobile operators is also limited, in Indonesia there are five major mobile operators, they are PT Indosat Tbk, PT XL Axiata Tbk, PT Hutchinson 3 Indonesia, PT Telekomunikasi Selular and PT Smartfren Telecom Tbk. Each tower provider usually has single mobile operator as its major tenant. PT Profesional Telekomunikasi Indonesia (Protelindo) has PT Hutchinson 3 Indonesia as its major tenant, PT Daya Mitra Telekomunikasi has PT Telekomunikasi Selular as major tenant and PT Inti Bangun Sejahtera has PT Smartfren Telecom Tbk as major tenant.

The main purpose of this paper is to identify what factor drive tower provider financial performance despite its adherent business risk. This study is unique because it focusses on tower provider company that rarely being used as primary topic in a research. We expect little literature exist for this study and hope for further study from different author to capture other point of view of this phenomenon.

## **2. LITERATURE REVIEW**

### **2.1. Theoretical Framework**

#### **2.1.1. Resource Based Theory**

Resource based theory can be described as a view about how an organization success is determined by its own controlled resources (Wernefelt, 1984). Resources are not just defined as tangible or intangible assets but also capabilities (Galbreath, 2005). According to Galbreath (2005), we can divide resources into three concepts:

- a. Tangible resources, including in this concept are financial and physical assets (Grant, 1991).
- b. Intangible assets, including in this concept are intellectual property (Hall, 1992), organizational (Barney, 1991) and reputational assets (Roberts and Dowling, 2002).
- c. Skill resources which includes capabilities (Amit and Schoemaker, 1993).

This theory related to tower provider industry because when a tower provider controlled more towers in an area and have capabilities to get cheaper financing through negotiation or connection, it will have great competitive advantage in the market.

### **2.2. Hypothesis Development**

Tower providers rely on their tenant to make revenue. Usually each tenant gives purchase order to build telecommunication tower in a specific area (Built to Suit) or if in a desired area already have telecommunication tower, it will request for collocation permission. Theoretically every additional tenant will increase company revenue but as stated before mobile operator in Indonesia still face tight price competition, in order to stay relevant, they must make some efficiency and one of the biggest expenditures is tower lease. With this kind of situation, it is extremely hard for tower provider to maintain its profitability except they have major tenant that willingly pay premium price for their service. We want to test if numbers of tenant still have impact or not on company's performance therefore, we draw this hypothesis:

H1: that number of tenants have significant impact on company's performance

Financial leverage plays major role in tower provider business because mostly they use bank loan to pay for acquisition transaction or capital expenditure. With this significant role we assume financial leverage have significant impact on company's performance, we draw this hypothesis:

H2: Financial leverage have significant impact on company's performance

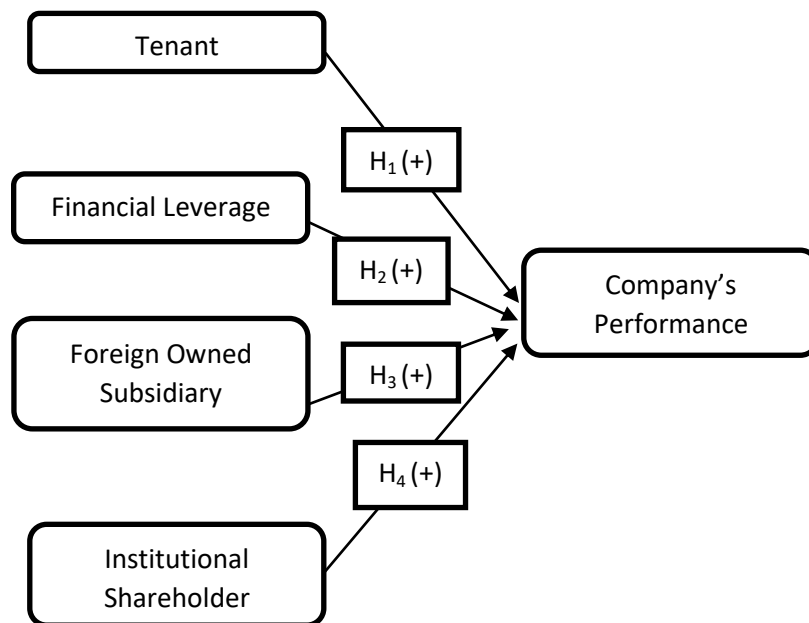
To raise significant fund for acquisition or capital expenditure, some tower providers like PT Tower Bersama Infrastructure Tbk and PT Solusi Tunas Pratama Tbk established a foreign owned subsidiary to gather more fund from foreign creditor. It is not a surprise because foreign loan usually cheaper than domestic one (Reuters, 2015). With capability to gather cheaper cost of fund we estimate that foreign owned subsidiary will give significant impact on company's performance.

H3: Foreign owned subsidiary has significant impact on company's performance

Many researches stated that institutional ownership give significant impact on company's performance (Bjuggern, Eklund and Wiberg, 2008, McCornell and Servaes, 1990, Nesbit 1994 and Smith 1996), mirroring from this research institutional ownership may not only have the power to control the company but also have significant capability to support its owned company. Backing by previous research we draw this hypothesis:

H4: Institutional Ownership has significant impact on company's performance

### 2.3. Research Scheme



## 2.4. Operational Definition and Measurement

In this study we use Tobin's Q model to measure company's performance over the years. The reason we use this model for measurement is the Tobin's Q incorporates to the past events, future tendencies (market value of the shares) including the expectations of success in the implementation of new projects and meets the recommendation of the authors that have studied this subject for years. (Sauia and Junior, 2002). As for the formula we used Adams, Almeida and Ferreira (2009) definition for Tobin's Q as  $(\text{book value of assets} - \text{book value of equity} + \text{market value of equity}) / \text{book value of assets}$ .

We refer tenants as any party that rent space on the telecommunication tower controlled by tower provider company. This data usually omitted in annual report. Most of corporate actions such as acquisition and capital expenditure in tower provider industry used bank loan as primary financing source. This phenomenon brings ups a question how this debt increases company's performance, because as we know to increase maximum performance using appropriate mix of debt and equity is not easy (Ukaegbu and Oino, 2014). In this study we use debt to equity ratio to represent financial leverage. We applied Cumming and Johan (2014) definition of debt as typically comes with interest payments (typically annual or semi-annual) and if interest payment is late or not in full amount debtholder can force the company into bankruptcy. Some tower provider such as PT Tower Bersama Infrastructure Tbk and PT Solusi Tunas Pratama Tbk established foreign owned subsidiary conducting in investment activity. The purpose of this establishment may relate to seek low cost of fund debt from abroad. It makes sense because their capital expenditure relies on debt. By obtaining low cost of fund, it will benefit them in long term in aspect of paying it interest. In this study we use the number of foreign owned subsidiary as proxy. According to Bjuggern, et al (2008), McCornell and Servaes (1990), Nesbit (1994) and Smith (1996) Institutional ownership positively impact company's performance. In this study our focus is about how tower provider take advantage on their institutional shareholder to gain more resources. Some institutional shareholder may have capabilities to gain cheaper cost of fund or other resources to give more competitive advantage. In this study we used total number of shares owned by institutional.

## 3. METHODOLOGY

This study used hypothesis-testing study, we used quantitative data derived from annual and financial report published by each company. The data in this study is classified as panel data because it combines time series and cross section (Gujarati and Porter, 2009). EViews 7 selected as tool to help statistical analysis.

This study used tower provider company that listed on the Indonesia Stock Exchange until 2017. Purposive sampling method was chosen to make sure that all samples are not related to each other. We used six years of reporting period from

2012 because most of tower provider became public and conducted their massive acquisition initiative around this year. The numbers of observation amounted to 30 observations. In this study we do not use PT Profesional Telekomunikasi Indonesia ("Protelindo") as sample because it is not going public company instead, we use its parent company PT Sarana Menara Nusantara Tbk as sample because it is already going public and all activities mainly conducted by Protelindo as subsidiary. Here are list of samples:

- a. PT Sarana Menara Nusantara Tbk
- b. PT Tower Bersama Infrastructure Tbk
- c. PT Solusi Tunas Pratama Tbk
- d. PT *Bali Towerindo* Sentra, Tbk
- e. PT Inti Bangun Sejahtera Tbk

Panel data regression consist of three model, the first one is Common Effect Model (CEM), the second one is Fixed Effect Model (FEM) and the third one is Random Effect Model (REM) (Gujarati and Porter, 2009). In this study we will use Chow Test, Hausman Test and Lagrange Multiplier Test to determine which regression model fit with this model. We did not conduct classical assumption because according to Ajija, Sari, Setianto and Primanto (2011) it is not required. We construct our equation like this:

$$\text{Tobin} = \alpha + \beta_1 \text{Tenant} + \beta_2 \text{DER} + \beta_3 \text{Sub\_Foreign} + \beta_4 \text{Ins} + \varepsilon$$

Where:

Tobin = Company's Performance

Tenant = Number of Tenants

DER = Debt to Equity Ratio (Representing leverage)

Sub\_Foreign = Foreign Owned Subsidiary

Ins = Institution Ownership

## 4. RESULT AND DISCUSSION

### 4.1. Descriptive Statistic

Table 1 above provide the result of descriptive statistic result of our data. Tobin has an average value of 2,48 with maximum value of 4,19 (PT Inti Bangun Sejahtera Tbk, 2012) and minimum value of 0,66 (PT *Bali Towerindo* Sentra, Tbk, 2013). Tenant has an average value 10.508 with maximum value of 25.011 (PT Sarana Menara Nusantara Tbk, 2017) and minimum value of 266 (PT *Bali Towerindo* Sentra, Tbk, 2012). Sub\_Foreign has an average value 1,20 with maximum value of 9 (PT Sarana Menara Nusantara Tbk, 2012) and minimum value of 0. DER has an average value of 2,48 with maximum value of 11,64 (PT Tower

Bersama Infrastructure Tbk, 2016) and minimum value of 0,22 (PT Inti Bangun Sejahtera Tbk, 2015). INS have an average value of 1.822.024.364 with maximum value of 4.979.727.393 (PT Sarana Menara Nusatara Tbk, 2017) and minimum value of 50.979 (PT *Bali Towerindo* Sentra, Tbk, 2012).

**Table 1.** Descriptive Statistic

	N	Mean	Median	Maximum	Minimum	Std. Deviation
TOBIN	30	2,48	2,58	4,19	0,66	1,09
TENANT	30	10.508,03	11.168,00	25.011,00	266,00	8.532,66
SUB_FOREIGN	30	1,20	-	9,00	-	2,01
DER	30	2,48	1,49	11,64	0,22	3,04
INS	30	1.822.024.364,43	969.778.398,00	4.979.727.393,00	50.979,00	1.329.810.710,70

#### 4.2. Chow Test

First step we conducted Chow test to make sure which model fit the best between CEM and FEM. We used this hypothesis based on Pirmousaei and Javid (2014) in this test:

H0: Regression using CEM.

H1: Regression using FEM

**Table 2.** Chow Test

Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section Chi-square	2,0860	4	0.7200

Based on Chow test result, probability value is above 5% (0,7200) or insignificant, therefore we accept H0 or CEM as better model in this study.

#### 4.3. Hausman Test

Because Chow test resulted in CEM as the best model in this study, we do not conduct Hausman test to determine which is better between FEM and REM.

#### 4.4. Lagrange Multiplier Test (LM Test)

We used LM test in this study to determine which model fit the best between CEM and REM. We used this hypothesis based on Gujarati and Porter (2009) in this test:

H0: Regression using CEM

H1: Regression using REM

**Table 3. LM Test**

Null (no rand. effect) Alternative	Cross-section One-sided	Period One-sided	Both
Breusch-Pagan	2.099.294 (0.1474)	0.374111 (0.5408)	2.473.405 (0.1158)

According LM test, the probability value is above 5% (0,1158) or insignificant, therefore we accept H0 or CEM as the best model in this study.

#### 4.5. Common Effect Model

With the result being CEM as the best model for this study, we conducted CEM regression analysis with the result shown in table 4.

**Table 4. CEM Regression analysis result**

Independent Variable	Coefficient	T-Statistic	Sig.
TENANT	-2,38,E-05	-0,700	0,490
SUB_FOREIGN	0,098	1,106	0,279
DER	-0,017	-0,263	0,795
INS	6,74,E-10	3,988	0,001
C	1,432	5,238	0,000
Dependen Variable			Tobin
R <sup>2</sup>			0,523
Adj. R <sup>2</sup>			0,447
F			6,855
Prob (F-Statistic)			0,001

Based on the regression result we can see that only institutional ownership (Ins) give positive significant impact on company's performance while the others are not. We also get significant number for prob F-statistic which means this model is fit for this study. Adjusted R<sup>2</sup> value is 0,447 (44,7%) which means dependent variables in this model can explains 44,7 % factors that impact Tobin and the other 55,3% is explained by other factors.

#### 4.6. Discussion

Based on the regression result only fourth hypothesis accepted, and the rests are rejected. This result support Bjuggern et al (2008), McCornell and Servaes (1990), Nesbit (1994) and Smith (1996) that institutional ownership positively impacts company's performance. If we focused in our subject about tower provider company some of them belong or affiliated to a certain business group for example PT Inti Bangun Sejahtera Tbk (IBST) and its main tenant PT Smartfren Telecom Tbk are affiliated within the same business group, Sinar Mas Group. Using the



group's influence, they may get better advantage than the competitors for instance when Sinar Mas consortium won east palapa ring project tender with net worth of 14 Trillion Rupiah. The member of the consortium is PT Inti Bangun Sejahtera Tbk (IBST), PT Smartfren Telecom Tbk and Mora Telematika Indonesia (Moratelindo), all of them affiliated with Sinar Mas Group (Telset, 2016). Other example is PT Sarana Menara Nusantara Tbk, affiliated with Djarum group, owned by one of the wealthiest family In Indonesia. According to their Annual report we can see that they have two directors formerly from American Tower, the largest tower owner and operator in North America and currently still expanding toward all the continents. We may conclude that institutional shareholder influence may attract highly skilled foreign professional to work in their team and contribute their skill. This highly skilled foreign professional may increase company intellectual capital and, in the end, give positive impact on company's performance (Pradono and Widowati, 2016).

According with the result we may capture recent phenomena about tight price among mobile operators and its impact on tower provider. As mobile operator offers low price for their service, they also try to pay less to the tower provider. It may explain why the number of tenants does not give significant impact on company's performance. With this situation tower provider may try to offer different service adjacent to telecommunication tower or infrastructure to decrease their exposure to mobile operator price competition.

As for leverage, we know that every tower provider depends on debt to finance their acquisition, but the increasing interest cost will give company greater financial risk in the future as interest rate may grow higher. Some tower providers try to acquire cheap foreign debt by establishing foreign owned subsidiary abroad but using debt in foreign currency may not too favorable right now with Rupiah still struggle to maintain its value against other strong currency like US Dollar, Pound Sterling or Euro.

## **5. CONCLUSION**

Based on the statistic result we can see that the model is fit and can explain almost fifty percent about company's performance. The only significant impact is from institutional ownership. We may say that most of company's performance based on how well their institutional shareholder's influence give more advantage than competitor and attract more talent. With the help from institutional ownership influence and connection tower provider company may get competitive advantage. Tenants do not give significant impact because they have pressure to decrease their expense to maintain their profitability in tight competition. For leverage, benefits obtained from debt such as quick cash for acquisition can be out weight by burden from increasing financial cost and foreign denominated debt may not help either with Rupiah condition.

Future research can develop research in this industry because we found almost no previous research about this subject. With more studies we may get better insight about how communication infrastructure business evolves in recent years.

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