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THE INCREASING OF FINANCIAL PERFORMANCE

WITH OWNERSHIP STRUCTURE

Maya Indriastuti
Sultan Agung Islamic University, Semarang, Indonesia

Abstract

Performance is an important thing to be achieved by any company anywhere, because the performance is a reflection of the company's ability to manage and allocate its resources. One way to improve the performance of the company through the ownership structure. The purpose of the company is largely determined by the structure of ownership in the process of shaping the incentives that motivate managers. The owner will try to make a variety of strategies to achieve the objectives of the company, after the strategy is determined then the next step will be to implement the strategy and allocate resources of the company to achieve its goals. All of these stages are not separated from the role of the owner can be said that the owner of a very important role in determining the sustainability of the company. Ownership structure is divided into two, namely managerial ownership and institutional ownership. The objective of this research are empirically examine the positive effects and significant managerial ownership and institutional ownership to the financial performance. Research sample uses purposive sampling method which is a sampling method by specifying criterias of 37 manufacturing companies that go public in Indonesia Stock Exchange (BEI), with data pooled or panel data method during 2010-2012. These data were processed using multiple linear regression. The result shows that managerial ownership and institutional ownership have a positive effects and significant to the financial performance.

***Keywords**: managerial ownership, institutional ownership, financial performance, manufacturin companies, and multiple linear regression*

INTRODUCTION

The success of a company to achieve its goals and meet the needs of a community is dependent on the performance of the company, especially its financial performance and corporate managers in carrying out their responsibilities. The company's performance is the result of many individual decisions are made continuously by management. Performance is an important thing to be achieved by any company anywhere, because the performance is a reflection of the company's ability to manage and allocate its resources. One way to improve the performance of the company through the ownership structure. The purpose of the company is largely determined by the structure of ownership in the process of shaping the incentives that motivate managers. The owner will try to make a variety of strategies to achieve the objectives of the company, after the strategy is determined then the next step will be to implement the strategy and allocate resources of the company to achieve its goals. All of these stages are not separated from the role of the owner can be said that the owner of a very important role in determining the sustainability of the company. Ownership structure is divided into two, namely managerial ownership and institutional ownership.

A managerial ownership interests between owners and managers can be aligned together, because the greater the managerial stock ownership, the greater the information possessed by management as well as the owner of the company which resulted in cost ranges agents used for monitoring costs and increasing the company's good performance (Siallagan and Machfoedz, 2006). Institutional ownership will try to influence the management of the company in managing the company's internal affairs because of institutional ownership has substantial holdings in the company. Increased institutional ownership indicates good performance of the company (Munthe, 2009).

Beiner et al., (2003), Suranta and Midiastuty (2003), Khomsiyah and Rahayu (2004), Boediono (2005), Siallagan and Machfoedz (2006), Helen Short et al., (2002) in Jama'an (2008), Duke and Kankpang (2011), Karim (2013) show that managerial ownership and institutional structure have the positive influence and significant on the financial performance. Sugiarto (2006), Hadrat (2007), Abdurrahman (2008), Munthe (2009) show that managerial ownership and institutional structure have the positive influence and no significant on the financial performance. Hastuti (2005) stated that the structure of managerial and institutional ownership have the negative influence and no significant on the

financial performance. Mayangsari (2003), showed that the structure of managerial and institutional ownership have the negative influence and significant on the financial performance.

THEORETICAL FRAMEWORK AND HYPOTHETICAL DEVELOPMENT

1. The Influence of Managerial Ownership on the Financial Performance

Managerial ownership gives managers the opportunity to engage in share ownership with the aim to balance the interests of the shareholders. Involvement of ownership, managers will act carefully because they bear the consequences of his decision. In addition to the involvement of share ownership, managers will be motivated to improve their performance in managing the company. Managerial stock ownership, managers are expected to act in accordance with the wishes of the principals as managers will be motivated to improve performance (Suranta and Midiastuty, 2003; Siallagan and Machfoedz, 2006). Barry (2003) suggest that managerial ownership as a percentage of shares owned by directors and managerial or commissioner. The greater the share ownership by managers, the better the performance of the company and vice versa.

Research conducted by Suranta and Midiastuty (2003), Khomsiyah and Rahayu (2004), Siallagan and Machfoedz (2006), Duke and Kankpang (2011), Karim (2013) showed that there is positive and significant managerial ownership the financial performance of the company.

H1: The positive influence of managerial ownership on the financial performance

2. The Influence of Institutional Ownership on the Financial Performance

Institutional ownership, which generally can act as parties to monitor company (Permanasari, 2010). According to Faizal (in Permanasari, 2010), companies with large institutional ownership indicates its ability to monitor management. The greater institutional ownership, the more efficient utilization of assets and the company is also expected to act as a precaution against waste made by management.

According Crutchley and Raymond, (1999) in-Fitri and Hanafi, (2003), Beiner et al., (2003), Khomsiyah and Rahayu (2004), Boediono (2005), Siallagan and Machfoedz (2006), Helen Short et al., (2002) in Jama'an (2008), Duke and Kankpang (2011), Karim (2013) in

Indonesia Stock Exchange investors pay attention to the amount of institutional ownership in assessing a company's ownership institutionally significant influence on financial performance.

H2: The positive influence of institutional ownership on the financial performance

RESEARCH METHODOLOGY

Population and Sample

The study population was all companies listed in Indonesia Stock Exchange 2010-2012. Determination of the samples was done by using purposive sampling method with the following criteria: (1) manufacturing company listed on the Indonesia Stock Exchange 2010-2012, (2) manufacturing company which has complete data for research. The sample used in this study was obtained by 37 manufacturing companies in Indonesia Stock Exchange (IDX) 2010-2012

Types and Sources of Data

The data used are secondary data is data company listed in Indonesia Stock Exchange 2010-2012. The data used is the Annual report for 2010-2012 and the Indonesian Capital Market Directory (ICMD) 2010-2012 obtained from www.idx.co.id.

Operational Definition and Measurement of Variables

1. Dependent Variable

The dependent variable of this study is financial performance. Financial performance is the determination of certain sizes that can measure the success of an organization or company to generate earnings (Sucipto, 2003). Meanwhile, according to IAI (2007) financial performance is the company's ability to manage and control its resources. Financial performance is measured using ROA ratio is the ratio between net income compared to total assets (Ang, 1997; Mayangsari, 2003; and Sucipto, 2003).

2. Variabel Independen

a. Managerial Ownership

Managerial ownership is defined as the percentage of shares owned by directors and managerial or commissioner (Beiner *et al.,* 2003; and Mayangsari, 2003).

$$MO = \frac{\text{the number of shares owned by management and the board of commissioners}}{\text{the number of shares outstanding}}$$

b. Institutional Ownership

Institutional ownership is ownership by the institution in the form of dividends or capital gain (Crutchley and Raymon, 1999 in Fitri and Hanafi, 2003; Beiner et al., 2003; Jama'an, 2008)

$$IO = \frac{\text{the number of shares owned by thecompany}}{\text{the number of shares outstanding}}$$

Methods of Data Analysis

Multiple Linear Regression

This study uses the technique of multiple linear regression analysis, to determine the direct effect of each of the independent variables used in partial or together (Ghozali, 2013).

Regression model used is as follows:

$$\mathbf{ROA} = b_0 + b_1\,\mathbf{MO} + b_2\,\mathbf{IO} + \varepsilon$$

Where :

ROA = Return On Assets

MO = Managerial Ownership

IO = Institutional Ownership

b_1,b_2 = Regression coefficient

ε = Error term

DISCUSSION

The Influence of Managerial Ownership on the Financial of Performance

The results showed that managerial ownership has a positive and significant impact on firm performance (sig. 0.000). This indicates that the larger the company managerial ownership will lead to firm performance (ROA) is lowered. Conversely, the smaller the company managerial ownership will lead to firm performance (ROA) be increased. Thus, the first

hypothesis (H1) which states that there is a positive and significant effect of managerial ownership on corporate performance, acceptable.

The results of this study are consistent with Beiner et al., (2003), Suranta and Midiastuty (2003), Khomsiyah and Rahayu (2004), Boediono (2005), Siallagan and Machfoedz (2006), Helen Short et al., (2002) in Jama'an (2008), Duke and Kankpang (2011), Karim (2013) showed that managerial ownership has the positive influence and significant on the financial performance. But different with Sugiarto (2006), Hadrat (2007), Abdurrahman (2008), Munthe (2009) showed that managerial ownership has the positive influence and no significant on the financial performance. Hastuti (2005) stated that the managerial ownership has the negative influence and no significant on the financial performance. Mayangsari (2003), showed that the managerial ownership has the negative influence and significant on the financial performance.

The Influence of Institutional Ownership on the Financial of Performance

Institutional ownership significant positive effect on financial performance (sig. 0.000. Means that greater institutional ownership will lead to firm performance (ROA) is increased and vice versa, so that the second hypothesis (H2) which states that there is a positive and significant impact of institutional ownership the performance of the company, accepted.

The results of this study are consistent with Beiner et al., (2003), Suranta and Midiastuty (2003), Khomsiyah and Rahayu (2004), Boediono (2005), Siallagan and Machfoedz (2006), Helen Short et al., (2002) in Jama'an (2008), Duke and Kankpang (2011), Karim (2013) showed that institutional ownership has the positive influence and significant on the financial performance. But different with Sugiarto (2006), Hadrat (2007), Abdurrahman (2008), Munthe (2009) showed that institutional ownership has the positive influence and no significant on the financial performance. Hastuti (2005) stated that the institutional ownership has the negative influence and no significant on the financial performance. Mayangsari (2003), showed that the institutional ownership has the negative influence and significant on the financial performance.

CONCLUSION

The results of this study it can be concluded that the ownership structure shown to improve the performance of the company, especially its financial performance. Large shareholding in

terms of economic incentives to monitor. Managerial ownership to align the company's shares may be deemed the potential difference between the interests of shareholders with management. So that the problem will disappear when the agency assumed a manager is also at the same time as an owner. While the presence of institutional ownership is likely to encourage more optimal control. The monitoring mechanism will ensure an increase in shareholder wealth. This study has many limitations in the data ROA is negative, thus allowing a high standard deviation because the difference data becomes larger. The suggestions for further research are not only used a sample of manufacturing companies alone but a sample of other companies, such as financial companies, so we get a positive ROA.

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