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Influence Analysis of Managerial Ownership and Institutional Ownership on Firm Performance in Indonesia Stock Exchange

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Abstract: ***This paper aims to be involved in such trends through examining the link between managerial ownership and institutional ownership as one of the important firm performance mechanisms. This research took 7 non-financial companies in the index LQ45 within period 2013-2017. This research used panel data regression method with random effect model. Significance level used in this research is 5% or 0.05. The result of this research show that all independent variable simultaneously effects the firm performance (market share) on non-financial company listed in LQ45 within period 2013-2017. Therefore, based on the partial test, the finding revealed that managerial ownership has a negative impact on firm performance. On the other hand, there is no evidence to support the impact of institutional ownership on firm performance. The findings also revealed that firm size as control variable has a positive impact on firm performance.***

Keywords: Firm Performance, Managerial Ownership, Institutional Ownership, Firm Size.

1. Introduction

To maintain the stability of a company, it needs good corporate governance (Ngwu, Osuji, & Stephen, 2017). The reason is because good corporate governance contain regulation with the principles of transparency, accountability, independence, and fairness that likely to increase the interest, trust, and wealth of the investors (Ngwu, Osuji, & Stephen, 2017; Alabdullah, 2018). Also, corporate governance be able to reduce the conflict between agencies in the company (Dalwai, 2015) . The conflict between agencies usually known as agency theory. The theory of the agency is a conflict between ownership and control, which has a difference of interest between managers and shareholders due to the problem of the principal agent (Dawar, 2014; Jensen & Meckling, 1976). Consequently, increased investor interest is aimed at achieving the company's financial success by increasing its firm performance (Achim, 2015).

Firm performance in this study is proxied by market share. Although, the advantage of market share is to avoid income smoothing behavior inside the company (Alabdullah, 2018). According to Alabdullah (2018) some measurements using total assets and net income such as ROA, ROE, and Tobin's Q as a measuring tools for firm performance that is assumed to be non-exaclty represent firm performance as it could be manipulated in a company.

Previous reseach indicates that the structure of ownership becomes an important aspect of firm performance such as managerial ownership (Alabdullah, 2018) and institutional ownership (Hsu & Wang, 2014). The control variables used in this research. The reason is that it is necessary to control the potential effects of the business environment on firm performance by using firm size indicators (Dibrell, Craig, & Neubaum, 2014). Therefore, there are differences in the result of research regarding the relationship between ownership structure and firm performance. According to several previous research by Alabdullah (2018), Zakaria, Purhanudin, & Palanimally (2014), and Mohd-Taufil, Md-Rus, & Musallam (2013), there is a relation between ownership structure and firm performance. In the other hand, according to previous research by Phung & Mishra (2016) and Mule, Mukras, & Oginda (2013) state that, there is no significant relationship between ownership structure and firm performance. The different understanding between the results of previous research and the theory is the basis of this research to examine the ownership structure and firm performance. The purpose of this research are to know the simultaneously and partially effect of managerial ownership and institutional ownership on firm performance of non-financial companies listed in LQ45 for period 2013 to 2017.

2. Literature Review

2.1 Firm performance

Firm performance is information from the description of financial conditions in a company in order to predict the future financial situation of the company (Mishra & Kapil, 2017). The firm performance can be calculated with different sub-variables. However, this study uses market share to measure firm performance in order to avoid income smoothing behavior (Alabdullah, 2018). The market share formula is as follows:

$$market\ share = \frac{net\ sales}{total\ sales\ of\ the\ industry}$$

2.2 Corporate Governance

Corporate governance is a regulation made and enforced through internal and external institutions to increase the company's performance, which was expected to attract investors (Dalwai, 2015; Achim, 2015). The company need to implement good corporate governance principles in order to attract investors (Ngwu, Osuji, & Stephen, 2017). It is assumed that this can resolve agency conflicts and protect the interest of stakeholders and organization (Dalwai, 2015). One of the stakeholders in the companies is the owners. There are different types of ownership in a company, including managers and institutions. This study uses managerial and institutional ownership as an independet variable.

2.3 Managerial ownership

The separation of share ownership and supervision of the company will create a conflict between shareholders and management (Jensen & Meckling, 1976). Managerial ownership is a percentage of share ownership owned by management in the company. Managerial ownership is expected to improve firm performance due to interest affiliation (Mishra & Kapil, 2017). The more managerial ownership, the more management has the authority to take decision in the company (Zakaria, Purhanudin, & Palanimally, 2014). This means that if the company increase managerial ownership, it will influence the firm performance. The reason is that managers are more responsible if they have the company's ownership (Mule, Mukras, & Oginda, 2013). The managerial ownership formula is as follows:

$$MANA = \frac{number\ of\ managerial\ shares}{number\ of\ shares} \times 100\%$$

2.4 Institutional ownership

Institutional ownership is the share of ownership by institutions or organizations. Institutional ownership or large shareholders have the potential to control the business mechanism (Al-Najjar, 2015). Institutional ownership plays an important role in minimizing agency conflicts between management and owners (Jensen & Meckling, 1976). The existence of institutional ownership is considered capable of monitoring corporate activity, such as management decision-making, which is expected to improve firm performance (Tahir, Saleem, & Arshad, 2015). The reason is that institutional ownership can help in decision-making by using the professional information they have (Lin, 2017). Institutional ownership formula is as follows:

$$INST = \frac{number\ of\ institutional\ shares}{number\ of\ shares} \times 100\%$$

3. Hypothesis Development

Based on literature reviews, previous research finding, and research framework. There are several factors influencing the firm performance. The independent variables are composed managerial ownership and institutional ownership. The variables have been conveyed by several previous study have an effect on firm performance. Therefore, the hypotheses are aim as temporary answers of the research question, the hypotheses are:

H1 : Managerial ownership and institutional ownership simultaneously have a significant effect on market share in non-financial companies listed LQ45 for period 2013 to 2017.

H2 : Managerial ownership partially has positive and significant effect on market share in non-financial companies listed LQ45 for period 2013 to 2017.

H3 : Institutional ownership partially has positive and significant effect on market share in non-financial companies listed LQ45 for period 2013 to 2017.

4. Research Methodology

The data was principally collected through Indonesia Stock Exchange. The data was collected from 7 non-financials companies of LQ45 for period 2013 to 2017. In this research, the data gathered from the site of the Indonesia Stock Exchange (www.idx.com). Eviews 10 software was used in the analysis. This study is using quantitative research using statistical method form analysis from the data collection. In this research carried out with descriptive research. The investigation type of this research is causal research. The reason is because the researcher will examine the influence of managerial ownership and institutional ownership on firm performance. In this research, the author has no interference without intervening the data in the environment of the organization. The unit analysis of this research is non-financial company listed in LQ45 Indonesia Stock Exchange for period 2013 to 2017. The time horizon of this research is cross sectional. Panel data regression model is a statistical tool that examine the cross section and time series in the research. This method of analysis expects to provide the right conclusion with this study.

The data panel regression analysis used in this research is:

$$Y = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 C_{3it} + e$$

Information:
Y = market share
α = constant
β_1 = The coefficient of the regression of managerial ownership
β_2 = The coefficient of the regression of institutional ownership
X_{1it} = Managerial ownership
X_{2it} = Institutional Ownership
C_{3it} = Firm Size (control variable)
e = Error term

5. Result and Discussion

5.1 Descriptive Analysis

In this research presented a study in descriptive analysis that aims to explain descriptively each variable. Explanation in descriptive analysis in the form of mean, median, maximum, minimum, standard deviation, and number of observations. Descriptive analysis is expected to be able to explain descriptively about dependent variable used in this research.

Table 5.1: Descriptive Analysis Table

	Managerial Ownership (X1)(%)	Institutional Ownership (X2)(%)	Firm Size (C1)	Market Share (Y)(Ratio)
N	35	35	35	35
Minimum	0.000577	43.9100	16.27314	0.055233
Maximum	15.15000	75.55000	19.50467	0.773883
Mean	2.195709	57.57077	17.84436	0.336778
Std. Dev.	4.839850	10.01973	0.928049	0.223530

According to table 5.1, It shows that the average of managerial ownership is 2.195709% and institutional ownership is 57.57077%. Therefore, the institutional ownership has larger percentage than managerial ownership. The average of market share is 0.336778 or 33.68% and the average of firm size is 17.84436 in non-financial companies lusted in LQ45 for period 2013-2017.

5.2 Panel Data Regression

Selection of panel data regression model in this research based on the results of chow test and Hausman test. The result is random effect model has the best fit to this study.

Table 5.2: Random effect model table (t-statistic)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Managerial Ownership	-0.016689	0.006800	-2.454440	0.0199
Institutional Ownership	-0.002816	0.004057	-0.694094	0.4928
Firm Size	0.174302	0.030881	5.644263	0.0000
C	-2.574775	0.681263	-3.779416	0.0007

Based on the table 5.2 above, the researcher formulated a panel data regression model equation that explained the effect analysis of managerial ownership and institutional ownership on firm performance (market share) with one control variable there is firm size in non-financial companies listed LQ45 period 2013-2017, namely:

$$Y = -2.574775 - 0.016689X_1 - 0.002816X_2 + 0.174302C_1 + e$$

Where:
Y = Market Share
X1 = Managerial Ownership
X2 = Institutional Ownership
C1 = Firm Size (control variable)
E = Error Term

5.2.1Simultaneous Influence Test (F-Test)

Simultaneous influence test or F-test explain the possible effect of all of the independent variable on dependent variable in this research. The test in this research involve managerial ownership, institutional ownership, on market share in testing the simultaneous influence with one control variable. This test uses a significance level of 5% or 0.05.

Table 5.3: Random effect model table (F-Test)

Weighted Statistics			
R-squared	0.583527	Mean dependent var	0.053096
Adjusted R-squared	0.543224	S.D. dependent var	0.046714
S.E. of regression	0.031572	Sum squared resid	0.030901
F-statistic	14.47822	Durbin-Watson stat	1.452055
Prob(F-statistic)	0.000005		
Unweighted Statistics			
R-squared	0.873717	Mean dependent var	0.336778
Sum squared resid	0.214534	Durbin-Watson stat	0.209149

Based on the table 5.3, the probability (F-statistic) is 0.000005 or smaller than 0.05. It means H_0 is rejected or managerial ownership, institutional ownership, and firm size simultaneously influence market share in non-financial company listed in LQ45 period 2013-2017.

5.2.2 Analysis of Coefficient Determination

Based on the table 5.3, it can be seen that the coefficient of determination (R^2) is 0.873717 or 87.37%. This means that the market share explained by managerial ownership and institutional ownership about 0.873717 or 87.37%. Otherwise, the other 12.63% explained by other variable outside the research.

5.2.3 Partial Influence (T-Test)

Partial t-test determine the influence of each independent variable (managerial ownership and institutional ownership) on dependent variable (market share). Partial testing in this research uses a significance level of 5% or 0.05. Based on table 5.2, the conclusions of partial influence test (t-test) are:

1) Managerial ownership variable has a coefficient of -0.016689 with a probability value (p-value) of 0.0199. The probability value is less than 0.05, it means H_0 is accepted, which means that managerial ownership variables don't have a positive influence on market share because from the result above the effect is negative on firm performance in non-financial companies listed in LQ45 period 2013-2017.
2) Institutional ownership variable has a coefficient of -0.002816 with a probability value (p-value) of 0.4928. The probability value is more than 0.05, it means H_0 is accepted, which means that institutional has no significant influence on market share in non-financial companies listed in LQ45 period 2013-2017.
3) Firm size variable has a coefficient of 0.174302 with a probability value (p-value) of 0.0000. The probability value is less than 0.05, which means that firm size variable has a significant and positive influence partially with positive direction on market share in non-financial companies listed in LQ45 period 2013-2017

5.3 Discussion

5.3.1 Influence of Managerial Ownership on Firm Performance

Based on the probability value (t-test) of managerial ownership variable is 0.0199. The value is below the significance level of 0.05 or 5%. It can be concluded that H_1 is rejected and H_0 is accepted so the managerial ownership partially don't have a positive significant influence on firm performance. The coefficient regression on managerial ownership is – 0.016689 which has a negative value indicates a negative relationship to firm performance proxies with market share.

According to (Alabdullah, 2018) research shows that managerial ownership has a positive and significant effect on the market share on Amman Stock Exchange (ASE). The reason is that the manager will help the company get better firm performance to the alignment of interests (Mishra & Kapil, 2017). This means that if the company increases management ownership, the firm performance will be influenced. Compared to the results of this study, managerial ownership partially has a significant impact with a negative impact on firm performance (market share) in non-financial companies listed in LQ45 period 2013-2017. The result of this research does not in the same vein with the result of previous research (Alabdullah, 2018) (Zakaria, Purhanudin, & Palanimally, 2014) (Mishra & Kapil, 2017). Because, according to Jensen & Ruback (1983) in (Zakaria, Purhanudin, & Palanimally, 2014) "CEO stock ownership is that with higher holding stock, it lags them from internal and external company discipline; thus reducing firm value". Furthermore, if the percentage of managerial ownership is very low or very high, it will prevent the growth of firm performance (Zakaria, Purhanudin, & Palanimally, 2014). That statement in the same vein with the data of this research, because there are big different variety of data managerial ownership in this research. Therefore, just one company has percentage of ownership above 1%. Otherwise, the other sample has below 1%. That's why the result of this research is negative influence the firm performance.

5.3.2 Influence of Institutional Ownership on Firm Performance

Based on the result, the probability value (t-test) of institutional ownership variable is 0.4928. This value is above the significance level of 0.05 or 5%. It can be concluded that H_0 is accepted and H_1 is rejected so the institutional ownership partially does not have a significant effect on firm performance. The regression coefficient on institutional ownership is – 0.0028816 which is shows a negative relationship to firm performance proxied with market share. According to the theory of Jensen & Meckling (1976), institutional ownership can reduce agency conflicts between managers and shareholder. The reason is that in institutional ownership, professionals usually have resources to improve the firm performance (Lin, 2017).

Compared to the results of this study, institutional ownership partially does not have a significant effect on firm performance (market share) in the non-financial companies listed LQ45 for period 2013-2017. The result of this research is different from the previous study (Hsu & Wang, 2014) (Lin, 2017). In this study, institutional ownership does not affect the firm performance. The result is the same vein with the previous result of Al-najjar (2015) research. The reason is because the institutions are not effective supervisors in a company (Al-Najjar, 2015).

6. Conclusion

This research aims to determine the effect of managerial ownership and institutional ownership on firm performance which is proxied by market share of non-financial listed in LQ45 period 2013-2017. The sample of this research is 7 companies, with period 5 (five) years, so there are 35 research sample units. Based on the result of testing using a panel data regression model that has been done, then obtained several conclusions as follows:

1) Managerial ownership, institutional ownership, and firm size simultaneously have a significant effect of firm performance that are proxied to the market share of non-financial companies listed in LQ45 for period 2013-2017.
2) Managerial ownership partially has a negative and significant influence on firm performance which is proxied by market share in non-financial companies listed in LQ45 for the period 2013-2017.
3) Institutional ownership partially does not have a significant effect on firm performance that is proxied by market share in non-financial companies listed in LQ45 for period 2013-2017.

7. Other Recommendation

Based on the result of the research, the author provides suggestion for the further research which is to be able to test another several variables such as family ownership and government ownership that are still related and expected to have influence on firm performance. It is also expected to be able to use different object in the future research. The finding of this study expected to be used as an information for investment decision making and for companies to improve firm performance in the company.

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