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Structure of Ownership on Profitability Manufacturing Company Mining Sector

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This study aims to evaluate the influence of ownership structure on profitability of manufacturing companies in the metal industry sub-sector and the like that are listed on the Indonesia Stock Exchange (IDX). The ownership structure variable consists of managerial and institutional ownership. Variable profitability is measured using Return On Assets (ROA). This study used a sample of 23 manufacturing companies in other metals and minerals sub-sectors that were listed on the Stock Exchange in 2014-2018. The analysis technique used for hypothesis testing is multiple regression using Eviews 8. Based on the results of testing and discussion the results show that managerial ownership has a negative effect on the profitability of the company. However, institutional ownership variables have a positive effect on company profitability

Key words: *Managerial ownership, institutional ownership, profitability (ROA).*

Introduction

If we look at weaknesses in the corporate governance system in Asia, many have been linked to the main causes of the 1997 crisis (Dickinson and Mullineux, 2005). Revealing the issue of the decline of *good corporate governance* is also the reason for the separation between managerial ownership and corporate control.

One of the factors that influence and become polemic is the structure of share ownership related to the increase in company performance. The opportunity of a company to be in a state of financial stress also has an impact on the ownership structure of the company. This ownership structure explains the attachment of the owner to protect the company (Wardhani, 2006). According to Wahyudi and Pawesti (2006) the ownership structure by some researchers confirms that it is able to have an impact on the course of the company which at the end has an impact on the company's performance in its success that is raising the value of the company.

The ownership structure in our country, namely Indonesia, has different characteristics from companies in other countries. Most companies in Indonesia are directed and centered so that the founder can also occupy a position as a board of directors or commissioners, besides that agency conflict can occur between managers and owners or also majority or minority shareholders.

As stated by Jensen and Meckling (1976) explaining agency relations as "agency relationship as a contract under which one or more person (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent". Where in agency theory is explained how the parties participating in the company, namely managers, business owners and creditors will behave, because basically they have different interests.

Previous research related to ownership structure has been done by Arum Ardianingsih and Komala Ardiyani (2010) and found that partially managerial ownership structure and variable Return on Assets (ROA) have a significant effect on company performance and simultaneously show that all variables have no significant effect on company performance.

Titis Waskito's research (2014) examined that partially managerial ownership structure has a positive influence on financial performance and institutional ownership variables have a negative influence on financial performance.

In 2014, based on data from the Ministry of Industry, the growth of the basic metal sector production which includes iron and steel fell by 8.48%, far below the performance in 2013 which grew 16.26%. This was caused by restrictions on the import of scrap due to environmental issues. Though the domestic industry has a high dependency with the percentage of dependence reaching 70%. This is certainly inversely proportional to the increasing number of companies that continue to grow but are not balanced with the productivity of their operations.

Based on the phenomena and several previous studies described above, this study intends to examine further whether *GCG* is seen from managerial and institutional ownership structures. provide an influence on the profitability of shares of metal subsector manufacturing companies and the like that are listed on the Indonesia Stock Exchange. This is because the results of previous studies regarding the influence of ownership structure on company profitability show inconsistency

The purpose of this study is to evaluate the effect of ownership structure (managerial ownership and institutional ownership) on profitability (ROA). The focus of the selection of samples in this study is the manufacturing companies of the metal sub-sector and the like that are listed on the Indonesia Stock Exchange (IDX) in 2014-2018. Based on data from the *Indonesian capital market directory* 2010 and 2011(ICMD), the manufacturing sector is the largest number of issuers compared to the number of issuers with other sectors *listed* on the IDX. This shows that manufacturing companies have a significant influence on the dynamics of trading on the IDX.

The benefit of this research is for investors as input for investing in companies whose ownership structures can improve the performance of the company, and for issuers as input for making decisions in order to increase profitability.
It is expected that the results of this study can be a reference for manufacturing companies, especially the metal subsector and the like that have *gone public*.

Theoretical Framework
Definition of Agency Theory

Theory of agency describes the relationship between shareholders as principal and management as an agent. Management is a party contracted by shareholders to work in the interests of shareholders. Because they were chosen, the management must account for all their work to shareholders (Randy Ichsan, 2013; Hussain, Ali, Thaker & Ali, 2019).
Agency relationship is a contract between the principal and the agent. According to Darmawati (2005) in Agung Anugrah Sutisna (2014) the core of agency relations is the separation between ownership (principal / investor) and control (agent / manager). Ownership is represented by an investor who delegates authority to the agent in this case the manager to manage investor wealth. Investors have the hope that in delegating management authority, they will benefit by increasing investor wealth and prosperity.

Ownership Structure

In an increasingly developing condition of a company, where the owner is not possible to carry out all the functions needed in the management of the company because of limitations. Then the owner needs to appoint another party (agent) who is professional, to carry out the task of managing better activities.

Ownership structure (ownership structure) is the composition of ownership in a company that affects the performance of a company. According to Sugiarto (2009) ownership structure is a comparison of the number of shares held by insiders with the number of shares held by investors. Or in other words the structure of share ownership is the proportion of institutional ownership and management ownership in the company's share ownership. In carrying out its activities a company is represented by directors (agents) who are appointed by shareholders (principals)

Managerial

Ownership of a manager will participate in determining policy and decision making. Managers in this case play an important role because managers carry out planning, organizing, directing, monitoring and making decisions. According to Herman Darwis (2009) in Riska Maliana (2015) the notion of managerial ownership is a shareholder of management who actively participates in the company's decision making (director and commissioner). Managerial ownership is one way to minimize agency problems, this is because managerial ownership is an oversight tool for manager's internal performance. With the presence of managerial ownership, it can improve the company's performance as a result of increased management ownership.
Mathematically managerial ownership can be formulated (Masdupi, 2005):

Institutional Ownership Institutional

ownership is one of the factors that can affect company performance (Wening 2007 in Waryanto 2010). The existence of institutional ownership will encourage an increase in more optimal supervision of management performance, because share ownership represents a source of power that can be used to support or vice versa to management performance. According to Juniarti and Sentosa (2009) the notion of institutional ownership is the percentage of company ownership held by institutional investors such as the government, investment companies, banks, insurance companies and ownership of other institutions and companies. In relation to the monitoring function, institutional investors are believed to have the ability to monitor management actions better than individual investors. The rigorous oversight carried out by institutional investors is very dependent on the size of the investor.

Institutional ownership generally acts as a party that monitors the company. This institutional share ownership is usually shares owned by other companies inside and outside the country as well as domestic and foreign government shares (Susiana & Herawati, 2007). Institutional share ownership will increase more optimal supervision of insider performance (Moh'd, 1998), then it will have an impact on increasing company profits. Mathematically institutional ownership can be formulated (Wahidahwati, 2002):

$$\text{Kepemilikan manajerial} = \frac{\textit{jumlah saham pihak manajerial}}{\textit{total saham beredar}}\ x\ 100\%$$

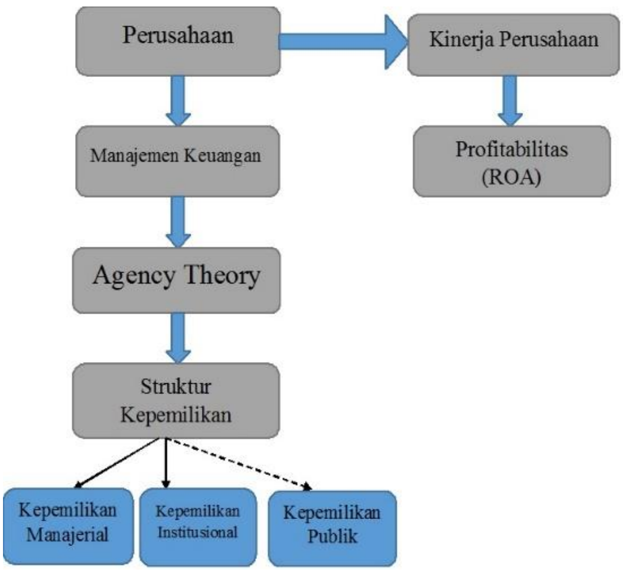
Profitability

Profitability is the company's ability to earn profits (Kartini and Arianto, 2008). Kamil and Herusetya (2012) argue that the greater the level of profitability shows the company is able to get even greater profits, so that the company is able to improve how the structure of managerial ownership and institutional ownership in the annual report more broadly. According to Harahap (2013) profitability ratios describe the ability of companies to earn profits through all capabilities, and existing resources such as sales activities, capital cash, number of employees, number of branches and so on. This ratio illustrates the company's ability to generate profits. The results of the profitability analysis provide supporting evidence related to the company's ability to earn profits and the extent to which the effectiveness of company management. Analysis tools that are often used for profitability analysis are profitability ratios of Return on Assets (ROA). The higher this ratio, the better the productivity of assets in obtaining net profits. So that it can be an attraction for investors. The following is the formula for obtaining ROA:

$$\boxed{ROA = \frac{laba\ setelah\ pajak\ (EAT)x100\%}{Total\ Asset}}$$

Theoretical Framework

To find out the influence of managerial ownership structure and institutional ownership both directly and indirectly, a conceptual framework is used or by using multiple linear regression, with structural relationships between variables can be expressed with a visible model in figure 1.



Research Paradigms and Hypotheses

Operationalization of variables is needed to determine the types and indicators of the variables bound in the study. In addition, this study is also intended to determine the measurement scale of each variable so that testing hypotheses using statistical aids can be done correctly. For more details, the research variables can be operationalized as follows:

This study is based on three variables that influence each other in which there are direct and indirect relationships that occur between the three variables with the following hypothesis:

- H1: There is influence of Managerial Ownership Structure to Profitability in the Manufacturing Company of the metal sector and the like that has been listed on the IDX.
- H 2: There is the influence of Institutional Ownership on Profitability in the Manufacturing Company of the metal sector and the like that has been listed on the IDX.
- H 3: There is the influence of Managerial Ownership Structure and Institutional Ownership to Profitability in the Manufacturing Company of the metal sector and the like that has been listed on the IDX.

Research Methods, Research Designs and Analysis Models The

Population in this study are all manufacturing companies in the metal and similar industrial sub-sectors listed on the Stock Exchange during the period (2014-2018).
In accordance with the objectives of the study, the research on this issue includes a combination of descriptive research and causality. The data used in this study is quantitative data in the form of numbers and scale ratio. The method used in this study is Descriptive Verification Method. Descriptive research method where this study interprets the data obtained based on the facts that appear in the research period so that a clear picture of the object under study is obtained. The analytical tool used is descriptive statistics and the output in the form of the number of samples, minimum, maximum, average count (mean), standard deviation. Verification method is a research method that aims to test the research hypothesis. The analytical tool used is Parametric Inferential Statistics because it uses ratio scale data.

Research and Discussion Results This

study used a population of manufacturing companies in the metal sector and the like as many as 16 companies listed on the Indonesia Stock Exchange (IDX) during the 2005-2014 observation period. This is because manufacturing companies are not directly affected by government regulation, where one component of government regulation is tax, and to facilitate classifying items that are disclosed.
The results of the help test *Eviews* version 8are as follows:

Table 3.1: Results of Data Eviews

Dependent Variable: ROA				
Method: Least Squares				
Date: 05/20/16 Time: 13:41				
Sample: 1 50				
Included observations: 50				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.214437	0.111110	1.929947	0.0597
KEPEMILIKAN_INSTITUSIONA	0.191490 2.323157 0.0245			0.444860
KEPEMILIKAN_MANAJERIAL	0.207721 -2.287926 0.0267			-0.475250
R-squared	0.114435	dependent var-Mean		0.158502
Adjusted R-squared	0.076751	SD dependent var		0.128863
SE of regression	0.123820	Akaike information criterion		-1.281859
Sum squared resid	0.720570	Schwarz criterion		- 1.167138
Log likelihood	35.04647	Hannan-Quinn criter.		-1.238172
F-statistic	3.036722	Durbin-Watson stat		1.267417
Prob (F-statistic)	0.057502			

Source: Processed Results The author uses Eviews 8

From the above data we can see the coefficient value for institutional ownership = 0.444860 which is statistically influential positive for profitability in this case ROA while managerial ownership variables have a negative effect of = -0.475250.

Intercept © 0.214437 is the average value of the component *random error component.* This random effect value shows how much the difference in components of a company's random error towards the intercept value of all companies (on average).

Other information from the results of the regression analysis shown are:

- R-*squared* = 0.114435; show the ability of the model, the independent variable is able to explain its influence as much as 11.44% of the dependent variable of the study.
- *Adjusted R-Squared* = 0.076751; is anRvalue^2 adjusted. The more independent variables entered into the variable will further reduce this value.

- *SE of Regression* = 0.123820; is an error standard of the regression equation. In this study the regression equation error standard is quite low at 12.38%.
- *Sum squared residual* = 0.720570; is the sum of the residual squared values in the
- *Durbin-Watson Stat* study = 1.267417; used to find out whether there is autocorrelation or not (relationship between residuals).
- *Dependent mean var* = 0.158502; the average value of the dependent variable in this case is profitability represented by ROA (*Return On Assets)*
- *SD dependent var* = 0.128863; is a standard deviation or standard deviation which shows the level of deviation from variable Y.
- *F-statistic* = 3.036722; is a simultaneous test of the effect of all independent variables on dependent.
- *Prob (F-Statistic)* = 0.057502; is the probability of the value of the test statistic F.

Table 3.2: Results of Data Eviews
Substituted Coefficients:
=========================
ROA = 0.214437260954 + 0.444860240028 * OWNERSHIP_INSTITUSIONA - 0.475249831775 * OWNERSHIP_MANAJERIAL

The meaning of the equation of the equation above is:

- 0.214437260954 = is a constant which means that when the value of managerial ownership and institutional ownership of a company is 0 or none, then the profitability of the company will increase by 0.214437260954.
- 0.444860240028 = if the company's institutional ownership rises by 1 unit then the profitability of the company will increase by 0.444860240028 one unit with the assumption that the other independent variables are zero, then the regression coefficient of institutional ownership will increase profitability by 0.444860240028.
- -0.475249831775 = if managerial ownership is good at 1 unit then the profitability of the company will decrease by -0.475249831775 one unit assuming the other independent variable is zero.

Matching model

R2 is adjusted R - Squares and Akaike> 0.90
R value Adj = 0.114435 or 0.11 = 11%

It means that the conceptual model illustrates that all independent variables contribute to explain the dependent variable by 11%, the remaining 81% are variables that not examined, or e (epsilon) Prof (F- Statistics) 0.02.

Significant Test (t)

Tests are carried out by setting a significant 95% or A = error 5% (0.05)
If the probability is greater than 0.05 more than the error value set, the t test does not indicate an associative relationship.
The t test is a partial hypothesis test by comparing

- T count <t table Ho is accepted, Ha is rejected
- T count> t table Ho is rejected, Ha is accepted

Based on the results of data processing it turns out that managerial ownership and institutional ownership variables obtained results of 2,323157 and -2, 287926 in other words is not significant, meaning that the two variables do not give a conclusion affecting Return On Assets (ROA).

Significant test (F)

Based on table 3.1 it can be explained that the F-value*stat* is 13.01713 with probability 0. This shows that the value is at a 99% confidence level or can be categorized as *highly* significant, because it has a significance value of 0 <0.05. If the significance value F is smaller than 0.05 then the alternative hypothesis is rejected and vice versa if the significance value F is greater than 0.05 then the alternative hypothesis cannot be rejected.

Table 3.3: Summary of *Stat* and *Prob. F-stat* significance at level 5%

F-statistic	3.036722
Prob (F-statistic)	0.057502

Description: * shows the level of
Source: Processed results The author uses Eviews8

Based on table 3.3 it can be explained that the F-value*stat* is 3.036722 with probability 0. This shows that the value is at a 99% confidence level or can be categorized as *highly* significant, because it has a significance value of 0 <0.05. If the significance value F is smaller than 0.05 then the alternative hypothesis is rejected and vice versa if the significance value F is greater than 0.05 then the alternative hypothesis cannot be rejected.

In this study the F test aims to examine the effect of managerial ownership and institutional ownership simultaneously on profitability (ROA) so that it can be seen that the research model can indeed be applied in research (model adequacy test). Then the hypothesis used for the F test is:

$_0$: $\beta_1 = \beta_2 = 0$

Meaning: There is no simultaneous significant effect of independent variable managerial ownership and successive institutional ownership on the dependent variable *profitability (ROA) of* metal manufacturing subsector companies that registered active on the Indonesia Stock Exchange for the period 2005-2014.
$_1$: there is at least one $\beta_i \neq 0$

Meaning: There is a simultaneous significant effect of independent variables managerial ownership and successive institutional ownership of the dependent variable *profitability (*ROA) manufacturing companies that are listed as active on the Indonesia Stock Exchange for the period 2005-2014.
The results of the F test in this study, namely accepting H_1 thus shows that the model made in this study has at least a slope coefficient /*slope* zero. In other words, there is at least an independent variable that has a real influence on the dependent variable.

Conclusions and Suggestions

Conclusion

Based on the results of the research described previously, there are two conclusions that can be drawn. First, simultaneously or all of the two variables studied in this study have a significant influence on the dependent variable profitability even though with a very small value of 13%. Second, the influence between independent institutional ownership and managerial ownership with profitability (ROA), namely as follows:

- Managerial ownership variables have a positive relationship but do not contribute to the influence of company profitability.
- Institutional ownership variables have a negative relationship and do not contribute to the effect on company profitability.

Implications

For investors and potential investors, it is best to invest in companies with foreign ownership because they have sufficient company performance to be supported by good resources, whether in terms of human resources or in terms of funding sources and other supporting resources such as sophisticated technology. to support company activities.

For issuers based on the results of research that has been carried out with low managerial ownership, it will not affect the performance of the company. The company should increase the proportion of managerial shares that can reduce agency problems among owners and managers that can affect the performance of the company.

Suggestion

Based on the discussion that has been done and after giving conclusions on the results of the study, the author intends to submit suggestions as follows:

1. Using the operationalization of variables that are more representative and *up to date;*
2. Add new variables to logical research that can affect the company's profitability more deeply.
3. The use of *samples* oatained this study is still limited, if possible further research can be carried out using wider data;
4. The author suggests that academics use other methods and other statistical tools in analysing data such as using STATA.

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