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The Effect of Ownership Structure on Financial Performance in Lippo Group Company

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ABSTRACT

This study examined the effect of Ownership Structure on Financial Performance at Lippo Group companies in Indonesia from 2015 to 2019. The number of samples in this study was 14 companies and 60 observations. The data were accessed on www.idx.go.id. The data used in this study was panel data or a combination of cross-section data and time-series data. The data analysis method in this research was the Panel Data Regression analysis method with panel estimation model Random Effect Model. The results showed that Managerial ownership and institutional ownership had a negative and significant effect on financial performance.

INTRODUCTION

The company is a certain unit of activity that converts economic resources into use-value in the form of goods and services to obtain profits. The general goal of the company is to improve the company's performance to obtain maximum profit. Increased company performance will also increase investor interest in investing in a company because it is indicated that the company will have good prospects in the future and bring high stock returns.

Each company produces information in the form of financial statements consisting of balance sheets, income statements, and cash flow statements. The report will later be used by information users (stakeholders) which is useful for the decision-making process. This is important for every company to measure financial performance, the company's financial performance is a description of the financial condition of a company which is analyzed with financial analysis tools so that it can be known the financial condition of a company in a certain period.

According to Sri, the Ownership structure is one of the influences on the rising and falling of financial performance. Two aspects need to be considered, namely the concentration of company

ownership by outsiders and ownership by management (Rejeki, 2007). Meanwhile, managerial ownership is the amount of share ownership by the company's management as measured by the percentage of the number of shares owned by management (Pujiati & Widanar(2009), Pura et al (2008) argued that the existence of managerial ownership can unify the goals of managers and shareholders and help connect internal parties with shareholders, can also lead to better decision making and improving company performance. Therefore, managerial ownership has a positive effect on financial performance.

Nevertheless, institutional ownership is a condition where the institution owns shares in a company. The institution can be in the form of government, private or foreign institutions (Widarjo, 2010). Febrina and Maryati (2018) concluded that the presence of this institutional ownership has a very large role to supervise the management and company policies. These actions can encourage managers to focus more on company performance). Therefore, institutional ownership has a positive effect on financial performance. This is supported by the results of research (Widayti (2011) and (Aprianingsih & Yusthita, 2016) who

found that institutional ownership has a positive effect on company performance.

METHODS

Data

The data used in this study is variable data Managerial Ownership, Institutional Ownership of Financial Performance in Lippo Group companies listed on the Indonesia Stock Exchange (IDX). The research data was obtained from the idx.co.id site during the 2015-2019 period with a total of 60 observations.

Classic assumption test

The stages of testing in classical assumptions are;

1. Normality test
2. Heteroscedasticity test
3. Multicollinearity test
4. Autohard test

Model

This research was conducted using a panel data regression model approach which was analyzed using the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). After the three models were carried out, the Chow test and Hausman test were carried out. Chow test was performed to select Common Effect Model with Fixed Effect Model. If it is not significant, the best model is the Common Effect Model and no Hausman test is needed. If the Chow test results are significant, there is a 5% level, then the selected model is the Fixed Effect Model.

Table 1. Descriptive Analysis

| Overall Model Tabel Table | mean | median | Maximum | Minimum | Std Dev | Obs |
|---------------------------|----------|----------|----------|----------|----------|-----|
| Panel A | | | | | | |
| KM | 0.002127 | 0.000000 | 0.054500 | 0.000000 | 0.007486 | 60 |
| KI | 0.668000 | 0.675200 | 0.942500 | 0.231300 | 0.183048 | 60 |

Source: Output Eviews 10 (Data processed), 2021

If the standard value deviation (Std. Dev) > the average value (mean), then the average value is a poor representation of the overall data, otherwise if the standard deviation value (Std. Dev) < the average value (mean), then the average is a good representation of the overall data.

Model

1. Test Chow

The results of the Chow test in this study are as follows:

Furthermore, it is necessary to do the Hausman test to choose between the Fixed Effect Model or the Random Effect Model. If the Hausman test results are significant, then the best model is the Fixed Effect Model. Conversely, if it is not significant then the best model is the Random Effect Model. All test models were analyzed using the E-views device. The empirical models are:

Model: Overall Model

$$ROA_{it} = + 1 KM_{it} + 2KI_{it} + e_{it}$$

Where:

ROA_{it} = Financial Performance

α = constant

1-2 = regression coefficient of the independent variable

KM_{it} = Managerial Ownership Variable

KI_{it} = Institutional Ownership Variable

I = i... N (Cross Section)

t = i... T (Time Series)

e = residual error (*Error*)

RESULTS AND DISCUSSION

Descriptive Data

Descriptive analysis to provide a general description of the object sampled in this study. The descriptive analysis describes the results consisting of the average, maximum, minimum, and standard deviation as well as the number of observations. It can be seen in the table below:

Table 2. Chow Test

| Model: Overall Model | | | |
|----------------------|------------|---------|--------|
| Effect Test | Statistics | df | Prob |
| Cross-section F | 4.067855 | (11,43) | 0.0004 |

Source: Output Eviews 10 (Data processed), 2021

Based on the table above, it can be seen that the value of *probability* for the Chow test on the model (overall model) of 0.0004, it is below the error tolerance standard of 0.05. So based on the Chow test the best model is *Fixed Effect Model* (FEM). So it is necessary to use Hausman test to

compare *Fixed Effect Model* and *Random Effect Models*.

2. Hausman Test

Hausman test results in this study are as follows:

Table 3. Hausman Test

| Model : Overall Model | | | |
|-----------------------|--------------------|------------|--------|
| Test Summary | Chi-Sq. Statistics | Chi-Sq. df | Prob |
| Cross-section random | 5.079858 | 5 | 0.4062 |

Source: Output Eviews 10 (Data processed), 2021

Based on the table above, it can be seen that the probability value for the Hausman test on the model (overall model) is 0.4062. Where the value is above the standard error tolerance of 0.05. So based on the Hausman test the best model is the Random Effect Model (REM).

Classic Assumption Test

1. Normality

The results of the normality test can be seen in the table below:

Table 4. Normality Test

| Model (overall models) | Jarque-Bera | Probability | Information |
|------------------------|-------------|-------------|-------------|
| | 2.774455 | 0.249767 | Normal |

Source: Output Eviews 10 (Data processed), 2021

Table 6. REM Test Results

| Variable | Overall Model | | |
|--------------------|---------------|--------------|--------|
| | Coef.. | t-Statistics | Prob |
| C | -0.0194 | -0.2766 | 0.7831 |
| KM | -0.1408 | -3.0192(***) | 0.0039 |
| KI | -2.4675 | -2.4505(**) | 0.0175 |
| R-squared | - | 0.2830 | |
| Adjusted R-squared | - | 0.2166 | |
| F-statistics | - | 4.2643 | |
| Durbin-Watson Stat | - | 1.8000 | |

Source: Output Eviews 10 (Data Processed), 2021

Based on the table of REM test results, the regression model compiled in this study for the overall model is as follows:

$$ROA = -0.0194 - 0.1408KM - 2.4675KI + e$$

Based on the above equation, it can be seen that the constant value is -0.0194. This shows that if KM and KI are 0 then ROA will be constant at 0.0194.

2. Heteroscedasticity

The heteroscedasticity test model (overall model) shows that there is no heteroscedasticity because it is above 0.05.

3. Multicollinearity Test

The results of the multicollinearity test on the overall model show that this model is free from multicollinearity problems because the correlation coefficient does not exceed 0.8.

4. Autocorrelation Test

Table 5. Autocorrelation Test

| Model (overall models) | Durbin-Watson Stat | Value |
|------------------------|--------------------|----------|
| | | 1.800082 |

Source: Output Eviews 10 (Data processed), 2021

Based on the table, it can be seen that the value of Durbin Watson in the model (overall model) is 1.800082. The results show that in this study there is no autocorrelation.

Regression Results

The best model in this study is the Common Effect Model, the equation is as follows:

Managerial Ownership Variables have a negative influence with a coefficient value of -0.140805. And for the variable Institutional Ownership has a negative relationship (not unidirectional) with ROA with a coefficient of -2.467542, this indicates that if Institutional Ownership increases by 1% then performance will decrease.

The results show that managerial ownership has a negative and significant effect on the financial performance of return on asset (ROA). This result is different from the hypothesis made, which states that managerial ownership has a positive and significant effect on company performance. According to Yulianto (2011), the proportion of managerial ownership that is too high makes management behave opportunistically which has a bad impact on the company. By making managerial ownership, it turns out that it can open up opportunities for managers to be able to act to take advantage of this profitable opportunity as well as possible for their interests or certain goals.

These results indicate that institutional ownership has a negative and significant effect on the financial performance of return of asset (ROA). The results of this study are not following the hypothesis. Where the hypothesis states that institutional ownership has a positive effect on financial performance. According to Modigliani in Wiranata and Nugrahanti (2013), institutional ownership does not affect the company's financial performance due to the information asymmetry between shareholders and managers, causing managers as company managers to be able to control the company because they have more information about the company than shareholders, with this more It is easy for managers to control the company in making a policy.

The information that forms the basis of the institution in conducting supervision is not as good as the information possessed by the management, so that management can exercise control over the company freely. Thus, institutional ownership does not have an impact on the company's performance. The company's performance no longer depends on how well the supervision is provided by the institution but is already under management control. So that regardless of the number of shares owned by other institutions or companies, it does not guarantee that monitoring of manager performance can run effectively.

CONCLUSION

Based on the study of the data above and the discussion, it can be concluded that: The results of the t and f tests for the model (Overall Model), partially (t-test) show the results that the variables K_MNJR and K_INST have a negative and

significant effect on financial performance. Simultaneously (f-test) shows the results that the variables K_MNJR and K_INST have a positive and significant effect on financial performance.

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