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INFLUENCE OF MANAGERIAL OWNERSHIP AND INSTITUTIONAL OWNERSHIP OF FINANCIAL PERFORMANCE IN LISTED PULP AND PAPER COMPANIES IN INDONESIA EXCHANGE

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ABSTRACT
The objectives of this study are: 1) to find out and analyze the effect of managerial ownership on financial performance on Pulp and Paper companies listed on the Indonesia Stock Exchange, and 2) to determine and analyze the effect of institutional ownership on financial performance on Pulp and Paper companies listed on Indonesia stock exchange. Data collection was carried out through documentation techniques in the form of financial statements for 5 years from 2013 to 2017 with the type of data pooling research. Pulp and Paper company research subjects listed on the Indonesia Stock Exchange. The data analysis technique used in this study is the multiple regression equation. The results showed that 1) the results of the study indicated that the application of managerial ownership in the sample company had been effective so that it had an influence in helping the unification of interests between managers and owners that could motivate managers to take action to improve the company's financial performance and 2) the results of this study proved that investors the institution is unable to professionally monitor the development of its investment in a company, thus the level of control over actions and management performance is very lacking so that the potential for fraud that can harm the company cannot be suppressed..

Keywords: *Managerial Ownership, Institutional Ownership, Financial Performance*

PRELIMINARY

Performance appraisal is a periodic determination of the operational effectiveness of an organization, parts of the organization, and its personnel based on strategic objectives, standards and established criteria (Mulyadi, 2011). An assessment of company performance is needed because performance reflects the company's ability to manage and allocate its resources. Performance appraisal is also absolutely necessary considering the risk and the amount of funds invested by investors is very significant. Financial performance as a determination of certain measures that can measure the success of a company in generating profits. An assessment of a company's financial performance must be based on published financial data that is made in accordance with generally accepted financial accounting principles. Financial ratio analysis aims to assess the financial performance of a company (Herman, 2016). To measure the ability of companies to produce profit types of financial ratios used are profitability ratios.

Research on financial performance needs to be done because it can reflect the success of a company in generating profits and bearing in mind the company's main goal is to prosper shareholders by continuously multiplying the company's wealth. By knowing the factors that affect financial performance, the company can continue to improve and overcome the problems it faces so that survival can be maintained and the factors that affect financial performance in this study are managerial ownership and institutional ownership.

The ownership structure can also be called the share ownership structure, which is the proportion of management and institutional ownership in the ownership of company shares (Hermiyetti and Katlanis, 2016). In modern corporate theory, ownership structure will affect organizational performance, according to Byrd, Parrino, and Pritsch (1998) in Herman (2016) states that share ownership is one mechanism to reduce agency problems. Agency problems arise because of differences in perceptions, desires and interests between managers and shareholders. In carrying out the company's operational activities, managers often put their interests first and tend to ignore the interests of shareholders. The manager's actions will certainly affect the company's financial performance.

Theory and research on managerial ownership has been carried out by Mudambi and Nicosia (1995) in Waskito (2014). The results showed that managerial ownership had a positive effect on the company's financial performance. Theory of Jensen and Meckling (1976) states that in order to reduce conflicts of interest between principals and agents, it can be done by increasing managerial ownership in a company. By having a share of shares in the company, the desires and interests of managers that are basically different can be combined with the desires and interests of shareholders who are none other than himself. Through managerial ownership the manager directly feels the benefits of the decisions taken and also participates in the loss as a consequence of wrong decisions.

Ownership by institutions will encourage increased oversight of more optimal management performance, because ownership of shares represents a source of power that can be used to support or vice versa on the existence of management. Gillan and Starks (2003) in Fitriatun, et al (2018) state that agency problems can be caused by diffuse ownership. In a dispersed ownership structure there is no incentive for individual shareholders to monitor the management of the company, because individual shareholders will shoulder the overall cost of supervision, while they have not yet enjoyed the benefits of the company. Therefore only large shareholders have sufficient incentives to monitor management performance.

LITERATURE STUDY AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency Theory discusses the relationship between shareholders (principals) and managers (agents). The pricipals are those who give credentials to other parties, namely agents, to carry out all activities on behalf of the principals in their capacity as decision makers (Jensen and Smith, 1984). The principal is the owner of the company and the agent is the manager of the company. According to Jensen and Meckling (1976) an agency relationship is a contract where one or more individuals (principals) engage with other individuals (agents) to carry out several activities based on their interests which involve the delegation of authority in decision making by the agent.

Managerial Ownership

Hermiyetti and Katlanis (2016), Managerial share ownership can help the unification of interests between shareholders and managers. The more the proportion of managerial stock ownership increases, the better the company's performance. Companies with managerial ownership, managers who are at the same time shareholders will certainly align their interests as managers with their interests as shareholders. While in a company without managerial ownership, managers who are not shareholders may only be concerned with their own interests. Managerial ownership is the proportion of shareholders by management who actively participates in corporate decision making, namely directors and commissioners. According to Herman (2016), Financial performance is the result or achievement that has been achieved by company management in managing company assets effectively over a certain period.

Managerial ownership is the proportion of shareholders by management who actively participates in corporate decision making, namely directors and commissioners (Candradewi and Sedana, 2016). According to Jensen and Meckling (1976) share ownership by managers can align the interests of managers and shareholders because by owning company shares, managers will feel directly the benefits of every decision they make, so too if an error occurs then the manager will also bear losses as one of the consequences shareholding. This is an incentive for managers to improve company performance.

Institutional Ownership

Apriada (2013), institutional ownership is the proportion of share ownership by institutional investors. Institutional investors are believed to have the ability to monitor management actions better than individual investors. Institutions as shareholders are considered better able to detect mistakes that occur. Jensen and Meckling (1976) state that institutional ownership has a very important role in minimizing agency conflict. Institutional ownership is the percentage of share ownership by institutional investors such as investment companies, banks, insurance companies, and ownership of other institutions and companies (Herman, 2016). Institutional ownership is ownership of company shares by financial institutions such as insurance companies, banks, pension funds, and investment banking (Siregar and Utama, 2015). Institution is an institution that has a great interest in the investment made including investment in shares so that the institution usually gives responsibility to certain divisions to manage the company's investment. Because the institution professionally monitors the development of its investment, the level of control over management actions is very high so that the potential for fraud can be suppressed. Institutional ownership is considered capable of being the company's effort in determining how to oversee managers more effectively in making every decision.

Financial Performance

Munawir (2013), the company's financial performance is one of the bases for evaluating the company's financial condition based on an analysis of the company's financial ratios. Meanwhile, according to Subramanyam and Wild (2013) financial performance is the recognition of income and the associated costs that produce profits that are superior to cash flow to evaluate financial performance. Revenue recognition ensures that all revenue generated in a period is recognized. Attribution ensures that expenses recorded in a period are only expenses related to that period.

Information on performance fluctuations is important in this connection. Performance information is useful in predicting a company's capacity to generate cash flow and available resources. In addition, this information is also useful in the formulation of considerations about the effectiveness of the company in utilizing additional resources. Jumingan (2014), good company performance is not merely measured by the size of the results achieved, but more important than that is the element of the process that supports it. Prayitno (2010), performance appraisal can provide benefits for companies.

RESEARCH METHODS

Research Approach

This research approach is quantitative, Sugiyono (2014), which is a research method based on positivism philosophy and used to examine specific populations or samples.

Population and Samples

The population in this study is the Pulp and Paper companies listed on the Indonesia Stock Exchange for 5 years, namely the period of 2013 to 2017 amounted to 9 companies. The sample used was a Pulp and Paper company listed on the Indonesia Stock Exchange for the period of 2013 to 2017 that met the criteria in this study. The method used is purposive sampling which is a type of non-random sample selection whose information is obtained using criteria. Based on the established criteria, the number of samples obtained were 8 pulp and paper companies listed on the Indonesia Stock Exchange with 40 observations.

Method of Analysis

The hypothesis to be tested in this study relates to the effect of managerial ownership and institutional ownership on financial performance. And to test and answer these hypotheses, the analytical method used in this study is the multiple regression equation.

RESEARCH RESULTS AND DISCUSSION

Managerial Ownership

Managerial ownership in Pulp and Paper companies that are Listed on the Indonesia Stock Exchange for 5 years, namely the period of 2013 to 2017, which is sampled in this study as follows: Alkindo Naratama, Tbk (ALDO) has managerial ownership as much as 3 people, Fajar Surya Wisesa, Tbk (FASW) has managerial ownership as much as 3 people, Indah Kiat Pulp & Paper, Tbk (INKP) has managerial ownership as much as 7 people, Toba Pulp Lestari, Tbk (INRU) has managerial ownership as much as 4 people, Kertas Basuki Rachmat Indonesia, Tbk (KBRI) has managerial ownership as much as 2 people, Kedawung Setia Industrial, Tbk (KDSI) has managerial ownership as much as 3 people, Suparma, Tbk (SPMA) has managerial ownership as much as 5 people, Tjiwi Kimia Paper Factory, Tbk (TKIM) has managerial ownership as much as 7 people.

Based on the above data it can be seen that the Pulp and Paper companies that are Listed on the Indonesia Stock Exchange for 5 years, namely the period of 2013 to 2017 have different managerial ownership. The largest number of managerial ownership is owned by the company Indah Kiat Pulp & Paper, Tbk (INKP) and Tjiwi Kimia, Tbk (TKIM) Paper Factory, as many as 7 people and the smallest number of managerial ownership is owned by the company Paper Basuki Rachmat Indonesia, Tbk (Indonesian Embassy) namely as many as 2 people. A higher level of managerial ownership can be used to reduce agency problems. This is based on the logic that increasing the proportion of shares owned by managers will reduce the tendency of managers to take excessive consuming actions, thereby uniting the interests of managers and shareholders.

Institutional Ownership

Ownership of shares by institutions is one of the important monitoring agents that plays an active and consistent role in protecting the investment in shares invested in companies. The monitoring mechanism will guarantee the increase of shareholders' prosperity. Institutional ownership in Pulp and Paper companies that are Listed on the Indonesia Stock Exchange for 5 years, namely the period of 2013 to 2017, which is sampled in this study as follows: Alkindo Naratama, Tbk

(ALDO) has institutional ownership as much as 3 people, Fajar Surya Wisesa, Tbk (FASW) has institutional ownership of 6 people, Indah Kiat Pulp & Paper, Tbk (INKP) has institutional ownership of 10 people, Toba Pulp Lestari, Tbk (INRU) has institutional ownership of 5 people, Kertas Basuki Rachmat Indonesia, Tbk (Tbk Indonesian Embassy) has institutional ownership as much as 2 people, Kedawung Setia Industrial, Tbk (KDSI) has institutional ownership as much as 3 people, Suparma, Tbk (SPMA) has institutional ownership as much as 4 people, Tjiwi Kimia Paper Factory, Tbk (TKIM) has as much institutional ownership 6 people.

Based on the above data it can be seen that the Pulp and Paper companies that are Listed on the Indonesia Stock Exchange for 5 years, namely the period of 2013 to 2017 have different institutional ownership. The largest number of institutional ownership is owned by the company Indah Kiat Pulp & Paper, Tbk (INKP) of 10 people and the smallest number of institutional ownership is owned by the company Paper Basuki Rachmat Indonesia, Tbk (Indonesian Embassy) as many as 2 people. The control function of the owner is crucial in improving company performance. Theoretically, the higher institutional ownership, the stronger the control over the company, the performance / value of the company will increase if the owner of the company can control the behavior of management to act in accordance with company goals. Ownership by institutions will encourage increased oversight of more optimal management performance, because ownership of shares represents a source of power that can be used to support or vice versa on the existence of management.

Financial Performance

Financial performance is the determination of certain measures that can measure the success of a company in generating profits. Based on the results of the analysis, it is known that financial performance as measured by return on assets (ROA) in Pulp and Paper Companies that are Listed on the Indonesia Stock Exchange for 5 years, namely the period 2013 to 2017 fluctuates and tends to increase for 8 companies. The highest average ROA was seen in 2017 at 5.96%. While the lowest average ROA was seen in 2014 at 2.37%. During the period of 2013 to 2017 the highest average ROA was achieved by Kertas Basuki Rachmat Indonesia, Tbk (KBRI), with an average of 6.80%. While the lowest average ROA was achieved by Tjiwi Kimia Paper Factory, Tbk (TKIM), with an average of 0.64%.

In 2013, Alkindo Naratama, Tbk (ALDO) had the highest ROA of 7.49%. Whereas Tjiwi Kimia Paper Factory, Tbk (TKIM) has the lowest ROA of 1.04%. In 2014, Alkindo Naratama, Tbk (ALDO) had the highest ROA of 5.90%. Whereas Toba Pulp Lestari, Tbk (INRU) has the lowest ROA of 0.44%. In 2015, Kertas Basuki Rachmat Indonesia, Tbk (Indonesian Embassy) had the highest ROA of 10.70%. Whereas Tjiwi Kimia Paper Factory, Tbk (TKIM) has the lowest ROA of 0.05%. In 2016, Toba Pulp Lestari, Tbk (INRU) had the highest ROA of 11.05%. Whereas Tjiwi Kimia Paper Factory, Tbk (TKIM) has the lowest ROA of 0.31%. In 2017, Kertas Basuki Rachmat Indonesia, Tbk (Indonesian Embassy) had the highest ROA of 10.73%. Whereas Tjiwi Kimia's Paper Factory, Tbk (TKIM) has the lowest ROA of 1.96%.

To facilitate the discussion of research results, this section will explain the test results for each research hypothesis, which are as follows:

1. *Effect of Managerial Ownership on Financial Performance*

The results indicate that the application of managerial ownership in the sample company has been effective so that it has an effect in helping the unification of interests between managers and owners who can motivate managers to take action to improve the company's financial performance. Managers actively participate in corporate decision making whose decisions have a major effect on increasing company profits. This research supports the theory of Jensen and Meckling which states that to reduce conflicts of interest between agents and principals can be done by increasing managerial ownership in a company.

The results of this study also prove that managerial ownership can align interests between managers and shareholders. The manager will feel the benefits of every decision he makes directly, as well as if something goes wrong, the manager will bear the loss as a consequence of share ownership. Thus, managers will not make decisions that can harm the company. Managerial ownership affects the company's performance because the share ownership by managers in the company has a very good proportion so that it is possible for managers to feel the benefits of ownership.

2. *Effects of Institutional Ownership on Financial Performance*

The results of this study prove that institutional investors are unable to professionally monitor the development of their investment in a company, thus the level of control over actions and management performance is very lacking so that the potential for fraud that can harm the company cannot be suppressed. Institutional investors only carry out their role as transient investors (temporary owners of the company) which instead focus only on short-term earnings, so that institutional ownership may not necessarily increase effective monitoring of management which will affect the company's financial performance.

The control function of the owner is crucial in improving company performance. Theoretically, the higher the institutional ownership, the stronger the control over the company, the company's performance will increase if the company owner can control management behavior to act in accordance with the company's goals. The greater the value of institutional ownership, the stronger the control of the company so that the owner of the company can control the behavior of management to act in accordance with the objectives of the company which will ultimately improve the company's financial performance.

CONCLUSION

Based on the results of research and discussion that has been stated, the conclusions in this study are: (1) Managerial ownership has a positive and significant effect on financial performance. This result means that the more managerial ownership will increase the financial performance of Pulp and Paper companies listed on the Indonesia Stock Exchange. (2) Institutional ownership has a positive and not significant effect on financial performance. This result means that if institutional ownership increases, financial performance will not affect Pulp and Paper companies listed on the Indonesia Stock Exchange.

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