

FINANCIAL PERFORMANCE IN SRI KEHATI COMPANY

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ABSTRACT

This study aims to determine and obtain empirical evidence about the influence of capital structure and ownership structure that is proxied by managerial ownership and institutional ownership on the company's financial performance with firm size as a control variable on companies listed on the Indonesia Stock Exchange and included in the SRI-KEHATI Index period 2013-2018. In this study researchers used quantitative research types. And the method used in this study is the associative method, with a total sample of 42 samples from 7 companies selected using purposive sampling techniques based on predetermined criteria. The data used are secondary data in the form of financial statements that have been audited from 2013 to 2018 taken from the Indonesia Stock Exchange website. Data analysis techniques used are descriptive statistics, classic assumption tests, and hypothesis testing. The results showed that: capital structure has a negative and significant effect on the company's financial performance, ownership structure that is proxied by managerial ownership has a positive and significant effect on the company's financial performance, ownership structure that is proxied by institutional ownership has a negative and significant effect on the company's financial performance. And the results of the research on capital structure and ownership structure proxied by managerial ownership and institutional ownership, and the size of the company influence the company's financial performance.

Keywords: Capital Structure, Ownership Structure, Managerial Ownership, Institutional Ownership, Corporate Financial Performance

PROEM

A company must have the desire to be able to minimize agency costs, because if the company incurred a very high amount of agency costs, then funding for the company's investment activities will be reduced due to an increase in company costs. There are several ways that companies can do to reduce agency costs, namely by increasing the size of the company, increasing the use of debt, and increasing the ownership structure. According to Ardi (2017) ownership structure can be described through two points of view, namely the agency approach and the asymmetric

information approach. According to the agency approach, ownership structure is a method that can be used to reduce conflicts of interest between managers and shareholders.

In the view of experts, the company's ownership structure will have an impact on the company. The ownership structure is divided into two: managerial ownership and institutional ownership (Ratnasari, Rosalia Budi, Kartika Hendra Titisari, et al. 2015). Managerial ownership is the share of shares owned by managers and directors of the company at the end of the year for each observation period. Institutional ownership can generally act as a party used to monitor the company. In addition to the ownership structure, the capital structure can also be used to reduce agency costs. The capital structure is also used to express the comparison of the use of debt (both long-term and short-term) that is used to finance the company's investment, so that by knowing the capital structure, investors can find out the proportion between risk and return on Investment (Ruslim, Herman and Ieneke Santoso, 2018).

If the company's performance is good, the profitability to be achieved by the company will be maximal. This happens because companies that have high profitability tend to use relatively small debt, because high retained earnings will be enough to Repay most of the runding (Solikin, Ikin, MiminWidaningsih, et al., 2015). To analyze profit performance, the analytical tool used is financial ratios. Financial ratios are tools that can be used to compare one thing with another or in other words compare with previous years, so they can show results in the form of relationships or correlations of the submission of financial statements in the form of balance sheets and income statements. In analyzing financial performance, financial analysis tools or ratios used in this study are company activities and measurements (Suandini, et, al., 2015).

Potential investors can use the company's financial performance to determine where they will invest their shares (Wehdawati, Fifi Swandari, et al, 2015). In order for the shares in the company to remain famous and attractive to investors, the company must maintain and improve its financial performance. The financial statements issued by the company are an illustration of the company's financial performance. Financial statements are one of the important benchmarks for assessing company performance. The statement of financial accounting standards (PSAK) No.1 issued by the Indonesian accountant association states that the purpose of financial statements is to provide

information about the company's financial position, performance, and cash flow. This information is used by users of financial statements in order to make economic decisions. In the financial statements contain information about the company which includes assets, liabilities, equity, income and expenses. And also in the financial statements also contains information about the company's profits and losses. One of the users of financial statements is capital market players, this information is used by capital market players as a benchmark or guideline in conducting transactions in the sale and purchase of shares in a company.

To reduce agency costs, companies can improve their ownership structure and use of debt. In addition, company size is one of the factors that can reduce agency costs. Company size can be expressed by total net sales. The size of the company (firm size) will have an impact on the capital structure because the larger a company will have a high growth rate, so that the company will be more confident to issue new shares and tend to use the amount of loans in a larger amount.

In running its business, every company definitely needs funds to obtain funds, the company can get it from the company owner or debt. To determine the capacity or production activities in a company, the availability of funds is one of the supporting factors. Companies can issue new shares and sell them in the capital market so they can fund the company. The capital market is a market consisting of long-term financial instruments issued by the government or private companies and can be traded in the form of debt or capital.

In strengthening the capital structure, financing business expansion or creating new businesses, issuers can sell new shares or can issue bonds in the capital market to the public at home or abroad. The stock price of a company is described in the value of a company. For company value to reach the maximum level, financial claims also need to be monitored. In the activity of analyzing and selecting stocks through financial statements, especially on the company's capital structure, investors need relevant and adequate information.

The phenomenon that occurs in companies listed in the SRI-KEHATI index is companies in countries that experience declining economic conditions where the company has a high risk of high levels of debt owned by the company. The performance of companies in Indonesia deteriorated in 1997-1998 due to the economic crisis.

Because of the crisis the value of the rupiah fell, interest rates and inflation became, and also weakening investment including foreign investment due to the collapse of investor confidence (Azis, et, al., 2017). PT Bouraq and PT Sempati Airlines are companies that experienced a setback due to financial problems where the company has a very large debt during the economic crisis.

The economic crisis affected all sectors of the economy. Because of the impact of the crisis many companies have difficulty in obtaining funds to carry out their business activities and also in paying short-term debt. As said by the organization for cooperation and economic development or OECD, when viewed from economic growth in Indonesia, the performance of the Indonesian economy in 2013 was quite good amid a weakening world economy and uncertainty.

Economic growth can be maintained at a fairly high level, which is 6.3-6.8%, with inflation maintained in accordance with Bank Indonesia regulations of $4.5 + 1\%$. Due to the strengthening of the issue of rising interest rates by the Central Bank of the United States of America, economic growth in 2015 was only 3.1%. The issue was concurrent with the weakening of the rupiah against the US dollar. Due to economic growth in Indonesia that continues to experience instability, the company stated that the capital structure and ownership structure in the company are important in improving the financial performance of a company.

THEORETIC

Effect of Capital Structure on Company Financial Performance

In a company capital structure is an important issue because the merits of the capital structure will have a direct effect on the company's financial position, especially if the company has a very large debt, it will burden the company. Own capital structure can be interpreted by comparison between foreign capital and own capital. An optimal capital structure is a capital structure that optimizes the balance between risk and return so that the stock price will be higher. Another theory underlying capital structure is trade off theory. Trade off theory is a theory that assumes that the optimal capital structure can be achieved by balancing the tax use benefits (tax shield benefits of leverage) with financial distress and agency problems. In the study of Fajrul, Dzulkirom and Saifi (2014) shows that capital structure has a positive and significant effect on the

company's financial performance. This significant result states that the high or low financial performance in a company is influenced by the capital structure. Whereas research conducted by Abdul and Ulil (2017) states that capital structure has no effect on the company's financial performance.

Influence of Ownership Structure proxied by Managerial Ownership on the Company's Financial Performance

There are many factors that underlie the contribution of improving the company's financial performance, one of which is the ownership structure. Ownership structure is a comparison of shareholders in a company that is calculated by dividing the number of shares owned by the owner with all company shares owned by the company. The structure of fish ownership can be described through two points of view, namely the agency approach and the asymmetric information approach. According to the agency approach, ownership structure is a method that can be used to reduce conflicts of interest between managers and shareholders. How to reduce agency problems by if the manager has a share in the company if the stock increases, the better the company's performance will be. A large shareholding in a company in terms of its economy will get an incentive to monitor the company's performance. If managerial ownership is low, it will result in incentives for the possibility of opportunistic management that will be higher. Managerial ownership of shares owned by the company is deemed able to balance the potential differences in interests between outside shareholders and management. Previous research on managerial ownership conducted by Panji, et al. (2018) shows that managerial ownership is influential positive and significant impact on financial performance. Share ownership owned by managerial can balance between the interests of shareholders and managers, because managers will get direct benefits from the decisions taken and if there is a wrong decision, the manager also bears the risk of these consequences.

Effect of Ownership Structure proxied by Institutional Ownership on Company Financial Performance

There are many factors that underlie the contribution of improving the company's financial performance, one of which is the ownership structure. Ownership structure is a comparison of shareholders in a company that is calculated by dividing the number of shares owned by the owner with all company shares owned by the company. The

ownership structure can be described through two points of view, namely the agency approach and the asymmetric information approach. According to the agency approach, ownership structure is a method that can be used to reduce conflicts of interest between managers and shareholders. When institutional ownership is high, a greater level of oversight will be carried out by institutional investors, which can prevent opportunistic behavior by managers. Therefore if the level of institutional ownership is higher the greater the voice and encouragement of institutions to monitor. Previous research on institutional ownership conducted by Panji, et al. (2018) showed that institutional ownership had a negative and significant effect on the company's financial performance.

Effect of Capital Structure and Ownership Structure which are proxied by Managerial Ownership and Institutional Ownership together on the Company's Financial Performance

In this study capital structure is measured by debt to equity ratio (DER), the definition of DER itself is the ratio of total debt to total capital. If the DER value is higher then the company's ability to obtain profitability will be lower, with that it will have an impact on the lower financial performance, so that DER has a negative correlation with profitability. The results of Fajrul, Dzulkirom, and Saifi (2014) research show that capital structure has a positive and significant effect on the company's financial performance. This significant result shows that the level of financial performance is influenced by the capital structure. This is inversely proportional to research conducted by Abdul and Ulil which shows that capital structure does not affect the company's financial performance. The ownership structure can be divided into two, namely managerial ownership and institutional ownership. The results of IB Made and Nyomen's research (2016) state that managerial ownership has a positive and significant effect on the company's financial performance. The amount of ownership of managerial shares owned by management and shareholders will show that they have the same interests so that the company's financial performance will be better. In contrast to research by Wehdawati, Fifi Swandari, and Sufi Jikrillah (2015), managerial ownership does not affect the company's financial performance. While research conducted by Panji, et al. (2018) shows that institutional ownership has a negative and significant effect on a company's financial performance. That is because institutional ownership by

parties or business entities originating from outside the company is greater than managerial stock ownership, enabling institutional parties to oversee managerial actions so that managers cannot act in their own interests.

METHOD

This type of research used in this study is a quantitative research method, because the data submitted is related to numbers. And the method that will be used in this study is the associative method, because in it there are variables to be analyzed for its relationship. The study was conducted at the Indonesia Stock Exchange (IDX) through the official website selected by researchers in this study are companies that are included in the SRI-KEHATI index. Data used in this research is secondary data published by the Indonesia Stock Exchange in the period 2013 - 2018. Other data needed by researchers is obtained from print media, scientific works, and the internet. After the data collection is obtained either through observation of documents or reports related agencies and the results of the publication has been completed, then carried out the recording of the necessary data. The population used in this study was 35 companies listed in the 2013-2018 SRI-KEHATI Index. The sample will be used in the selection of data using non-probability sampling, namely by using purposive sampling. The sampling that will be examined in this study is based on all companies included in the SRI-KEHATI index for the 2013-2018 period.

RESULT

Effect of Capital Structure on Financial Performance

From the results of the t test, it will produce a t-count of the Capital Structure variable of -9,778 with a significance level of 0,000 then if calculated using a table of 1.68709, which turns out the t-value < ttable (-9,778 < 1.68709) and the significance value of 0,000 < 0.05. It can be concluded that the Capital Structure has a negative and significant effect on the Company's Financial Performance.

The results of research conducted by researchers supported by research Tambunan, et, al. (2018) stated that capital structure using a longterm debt equity ratio (LTDER) has a negative effect on the company's financial performance. The research is in line with research conducted by Yuniarti, May, Raharjo Kharis, et al. (2016) which states that LTDER has a negative effect on the company's financial performance. This

happens because the higher the long-term debt owned by the company, the company's financial performance will decline because the interest on its debt will increase.

Meanwhile, according to research Fajrul Marinda, Moch Dzulkirom AR, and Muhammad Saifi (2014) note that capital structure has a significant effect on financial performance. These significant results indicate that the high or low of the company's financial performance is influenced by capital structure.

Effect of Proxy Ownership Structure with Managerial Ownership on Financial Performance of the Company

From the results of the t test, it produces a tcount of the ownership structure variable which is proxied by Managerial Ownership of 2,246 with a significance level of 0.031 then if calculated using a table of 1.68709, it turns out that the $t_{count} > t_{table}$ ($2,246 > 1.68709$) and the significance value of $0.031 < 0.05$. Then it can be concluded that the ownership structure which is proxied by managerial ownership has a positive and significant effect on the financial performance of the company.

The results of this study are supported by MG research. Kentris Indarti (2013) which shows that managerial ownership has a positive and significant effect on performance. The results of this study are in line with research by Christian, Ika Puspita (2018). Managerial Ownership is a condition where management works as a manager of the company and is also a shareholder in the company.

Effect of Ownership Structure proxied by Institutional Ownership on Company Financial Performance

From the results of the t test, it produces a tcount of the Ownership Structure variable which is proxied by Institutional Ownership of -6,641 with a significance level of 0,000 then if calculated using a table of 1.68709, it turns out that the $t_{count} < t_{table}$ ($-6.664 < 1.68709$) and the significance value of $0,000 < 0.05$. So with this it can be concluded that the Ownership Structure which is proxied by Institutional Ownership has a negative and significant effect on the Company's Financial Performance.

The results of this study are supported by the research of Panji, et al. (2018) which states that institutional ownership has a negative and significant effect on financial performance. While research by Panji, M. Elaga, Wahyu Agung DS, et al. (2018) states that institutional ownership has a positive and significant effect on

financial performance. Institutional Ownership is a condition in which a party owns shares in a company that owns a large number of shares.

The Effect of Capital Structure and Ownership Structure Proxied by Managerial Ownership and Institutional Ownership on Company Financial Performance with Company Size as a Control Variable

The significance of the F Test shows that the Fcount is 201.188 with a significance value of 0.000, while the Ftable is 2.63. Then $F_{count} (201,188) > F_{table} (2.63)$ and the significance value is $0,000 < 0.05$. Thus, this shows together the Capital Structure and Ownership Structure that is proxied by Managerial Ownership and Institutional Ownership, as well as Company Size as a control variable influencing the Company's Financial Performance.

CONCLUSION

From the partial test results show that the Capital Structure variable has a negative and significant effect on the Company's Financial Performance. From the results of this study it can be concluded that H1 was accepted. The results of research conducted are in line with research by Fajrul Marinda, Moch Dzulkirom AR, and Muhammad Saifi (2014).

From the partial test results indicate that the variable Ownership Structure which is proxied by Managerial Ownership has a positive and significant effect on the Company's Financial Performance. From the results of the research conducted it can be concluded that H2 is accepted. The results of this study are in line with the research of Panji, et al. (2018).

From the partial test results indicate that the variable Ownership Structure which is proxied by Institutional Ownership has a negative and significant effect on the Company's Financial Performance. From the results of the research conducted it can be concluded that H3 is accepted. The results of this study are supported by the research of Panji, et al. (2018).

From the test results simultaneously showed that the variable Capital Structure, Ownership Structure is proxied by Managerial Ownership and Institutional Ownership, and Company Size as a control variable has a significant effect on the Company's

Financial Performance. From the results of the research conducted it can be concluded that H4 is accepted.

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