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The Effect of Managerial Ownership, Institutional Ownership and Independent Board of Commissioners on Return on Assets

(Study In Banking Companies Listed in the Indonesia Stock Exchange 2013 – 2017)

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Abstract: *This study aims to determine the effect of managerial ownership, institutional ownership, and the independent board of commissioners on return on assets in banking companies listed on the Indonesia Stock Exchange in 2013 - 2017. The population in this study are all financial reports from banking companies listed on the Indonesia Stock Exchange. The sample size used was 13 companies, with the sampling technique used was the saturated sample method or the sensing method. The data source used is secondary data, with data collection techniques using documentation, while the data analysis used is multiple linear regression. The results showed that managerial ownership has a positive and significant effect on return on assets. Institutional ownership has a negative and not significant effect on return on assets. Board of Commissioners has a positive and not significant effect on return on assets.Companies is expected to pay attention to the composition of managerial share ownership and investors is expected to evaluate financial statements before investing, especially having to see the value of profit or profitability as seen from the value of return on assets.*

Keywords: *managerial ownership, institutional ownership, independent board of commissioners, return on assets*

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I. Introduction

Return on Assets is a measurement of the company's overall capability in generating profits with the total assets available in the company (Syamsuddin, 2013). Return On Assets (ROA) can be used to measure how much net income will be generated from each rupiah fund embedded in total assets. ROA is more comprehensive in measuring overall returns from both debt and capital (Candradewi and Sedana, 2016). DewiEtika (2015) stated that ROA is a proxy of profitability ratios which is one measure of financial performance. Thus it can be said that the higher the ROA it can be said the better the financial performance. In accordance with Bank Indonesia Regulation Number 13/1 / PBI / 2011 concerning the Evaluation of the Soundness Level of Commercial Banks, ROA can be used to assess the condition of bank rentability in Indonesia. The higher the ROA, means the bank is more effective in using assets to generate profits (Hamidah, Purwati, and Mardiyati, 2013). Many factors can increase ROA, among others, managerial ownership, institutional ownership and independent board of commissioners (BenedictusSianipar, Hapsari, and Boediono, 2018).

Managerial ownership is a situation where the manager owns the company's shares or in other words the manager is also a shareholder (Tjeleni, 2013). The agency theory approach considers managerial ownership as an instrument or tool to reduce agency conflict. This is in accordance with the agency theory proposed by Jensen and Meckling (1976). Which states that agency relationships as contracts between principals (shareholders) and agents (managers). The difference in interests between managers and shareholders causes the emergence of a conflict, namely agency conflict. One way to reduce agency conflict can be done by increasing managerial ownership (Wiranata and Nugrahanti, 2013). Share ownership by management will encourage managers to be more careful in making decisions, this is because they will directly share the benefits taken. Therefore, increasing managerial ownership can increase ROA or it can be said that managerial ownership has a positive effect on ROA (Murni, 2015; Gugong at al., 2014; Ongore at. Al., 2011). This opinion is different from the results of empirical studies conducted by (Wiranata and Nugrahanti, 2013) which states that managerial ownership has a negative effect on ROA

The next factor that is expected to increase return on assets is institutional ownership, which is the percentage of company shares owned by institutions or institutions (insurance companies, pension funds, or other companies) (Nuraina, 2012). Institutional ownership can increase optimal supervision of company performance. Jensen (1986) states that the greater the percentage of shares held by institutional investors will cause the monitoring business to be more effective because it can control opportunistic behavior carried out by managers. The greater the percentage of shares held by the institution causes supervision to be more effective so that it can increase the value of return on assets (Haryono at. Al., 2017). This opinion is contrary to Murni, 2015; Wiranata&Nugrahanti 2013 based on an empirical study states that institutional ownership does not significantly influence profitability. Whereas Najjar (2015); Tsouknidis (2019) the results of the empirical study show that institutional ownership has a negative effect on profitability.

In addition to managerial ownership and institutional ownership, other factors such as independent commissioners can also affect profitability (Lutfi at. al., 2014). The Independent Commissioner is a commissioner who has no family relationship or business relationship with the directors or shareholders (Hermalin&Weisbach, 2003). Independent commissioners can improve the supervisory function of the company. The existence of an independent board of commissioners in the company can reduce agency problems and prevent opportunistic behavior. The independent board of commissioners also tends to evaluate executive performance based on financial performance, not subjective ones such as those carried out by dependent commissioners, so that it can encourage improvement in company performance (Lutfi at. al., 2014).Bayesinger&Hoskisson (1990) stated that increasing the function of the board of commissioners can improve financial performance. Benecitus at. al., (2018); Ramiyati (2018) stated that independent board of commissioners had a positive effect on ROA. Instead, Ongore at. al. (2015) stated that independent board of commissioners had an insignificant effect on ROA.

Based on the above explanation the purpose of the study is to examine the effect of managerial ownership, institutional ownership and independent board of commissioners on return on assets (ROA)

Managerial ownership and return on assets (ROA)

Managerial ownership is share ownership by the management company Jensen and Meckling (1976). Managerial ownership is one of the corporate governance structures where managers are involved in share ownership or in other words managers are also shareholders. Furthermore Jensen and Meckling (1976) in agency theory.predicts that high managerial ownership will reduce the inherent conflict of interest between managers and shareholders. Managerial share ownership will encourage managers to be careful in making decisions because they share directly the benefits of the decisions taken and share the losses as a consequence of making wrong decisions. Increasing managerial ownership, it will reduce agency costs which in implication will improve the company's financial performance (Hanim at. Al., 2018).In line with research from Ongoreat.al., 2011; Hamidah, at. al. ,, 2013; Gugong at al., 2014; Candradewi and PanjiSedana, 2016; Ramiyati, 2018; Ramiyati, 2018; Sianipar, at. al., 2018 which stated that managerial ownership has a positive and significant effect on return on assets. Based on the description, the formulation of the hypothesis is as follows:
H1: Managerial ownership has a positive and significant effect on return on assets.

Institutional Ownership and return on assets (ROA)

Institutional Ownership is a condition where an institution has shares in a company. These institutions can be in the form of government, private or foreign institutions (Widarjo, 2010). Masry (2016) stated that institutional ownership plays an important role in improving company performance by reducing agency problems and monitoring company management. Companies with low share ownership of institutional owners have weak governance structures and show poor performance. Institutional ownership in a company will encourage increased supervision to be more optimal for management performance (Healy, 2003). Haryono (2017) stated that the greater share ownership by institutional investors, the greater the strength and encouragement to oversee management, so that it will provide a greater impetus to optimize company performance so that financial performance will also increase. In line with the results of Masry's research (2016); Haryono (2017); Ramiyati (2018) showed that institutional ownership has a positive and significant relationship with company performance in this case profitability. Based on the description, the formulation of the hypothesis is as follows:
H2: Institutional ownership has a positive and significant effect on return on assets.

Independent Board of Commissioners and return on assets (ROA)

An independent commissioner is a commissioner who does not originate from an affiliated party with the company (KNKG, 2012). The existence of a board of commissioners which in governance implies a better monitoring function in the financial reporting process that will result in higher income informativeness. Lutfi at. al. (2014) argues that an important aspect of good governance is the presence of a board of commissioners.

Maryanah&Amilin, (2011) stated that supervision by independent commissioners can influence manager's behavior in an effort to improve company performance. Board of Commissioners contributes better to improving company performance (Brick and Chidambaran 2010; Grove et al. 2011).In line with the results of research by Ramiyati (2018); Sianipar at.al., (2018); Saputra at.al., (2017); Sumarno at.al., (2016) which stated that independent commissioners have a positive and significant effect on return on assets. Based on the description, the formulation of the hypothesis is as follows;
H3: Independent board of commissioners have a positive and significant effect on return on assets.

II. Research Methodology

The population used in this study are all banking companies listed on the Indonesia Stock Exchange from 2013 to 2017 with a total of 13 companies, taken with the following research criteria:
1. Banking sector companies listed on the Indonesia Stock Exchange in 2013-2017.
2. Banking sector companies that published annual reports and complete financial statements from 2013-2017.
3. Companies that have completed data related to the variables that will be examined during the 2013-2017 period.

Based on the company's financial performance report in the banking sector published by ICMD, banking companies listed on the Indonesia Stock Exchange in 2013-2017 amounted to 43 companies and which met the criteria of 13 companies, namely PT. Bank Capital Indonesia Tbk, PT. Bank Central Asia Tbk, PT. Bank BukopinTbk, PT. Bank Mestika Dharma Tbk, PT. Bank Negara Indonesia Tbk, PT. Bank Tabungan Negara Tbk, PT. Bank DanamonTbk, PT. Bank Maspion Indonesia Tbk, PT. Bank CIMB NiagaTbk, PT. Bank SinarmasTbk, PT. National Pension Savings Bank Tbk, PT. Bank Victoria International Tbk, and PT. HimpunanSaudara1906Tbk. The number of samples in this study were 65 observational data (13x5)

Table 1. Research Variables and Measurements

No	Variable	Definition	Measurement
1.	Managerial ownership (X_1)	Company share ownership by the manager or in other words the manager is also a shareholder	$\frac{\text{Number of Shares owned by Directors, Management, Commissioners}}{\text{total outstanding shares}}$ Sartono (2012):
2.	Institutional Ownership (X_2)	Percentage of company shares owned by institutions or institutions (insurance companies, pension funds, or other companies)	$\frac{\text{Number of Institutional Shares}}{\text{Total outstanding share}}$ Sartono (2012)
3.	Independent Board of Commissioners (X_3)	**Commissioners** who do not originate from affiliated parties with the company	$\frac{\text{Number of Independent Commissioner Members}}{\text{Total Number of Commissioners}}$ Sartono (2012)
4.	*Return On Assets* (Y)	The company's ability to generate net income based on a certain level of assets	$\frac{\text{EAT}}{\text{Total Aktiva}}$ Houston (2011)

III. Result

Normality test

Based on the results of the normality test with the Kolmogorov-Smirnov test, showing the p-value (Asymp. Sig) is 0.593, where the value is greater than 0.05, that is (0.593> 0.05). This means that the regression model in the study is normally distributed, so the resulting regression model is good and feasible to use in research because it has met the assumption of normality.

Classic assumption test

Based on the test results show that all the independent variables used obtained tolerance values> 0.10 and VIF values <10. So it can be concluded that the regression model does not occur multicollinearity.

The autocorrelation test results obtained by the Durbin Watson value of 2,282. The results obtained are located between the values of dU and 4 - dU which can be written as follows 1.696 <2,282 <2,304. This means that the regression model used in the study does not occur autocorrelation, so the model is worthy of use.

Using the glejser test in table 4.9 above, shows that the significance value of each of the independent variables used is greater than 0.05 (sig.> 0.05). These results can be concluded that the regression model produced in the study did not occurheteroscedasticity, so it can be said that the regression model is good.

F test

The statistical test F in this study was used to test the regression model as a tool for predicting the dependent variable (Return On Assets (ROA)) of the independent variables (managerial ownership, institutional ownership, and independent board of commissioners)

Table2
F test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.069	3	2.356	3.651	.017[a]
	Residual	39.366	61	.645		
	Total	46.435	64			

Based on the results of the F test in table 2, obtained a significance value of F of 0.017, where the value is smaller than 0.05, it can be concluded that the regression model produced is fit, so that the regression model is significant and feasible to use. This result means that managerial ownership, institutional ownership, and independent board of commissioners can be used to predict Return On Assets (ROA).

Hyphoteses Test

The results of hypothesis testing in this study can be seen in table 3

Table 3: Hyphoteses Test

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.636	.691		3.817	.000
	MOWN	.039	.018	.277	2.219	.030
	INST	-.011	.004	-.023	-.192	.848
	DKI	.018	.011	.100	1.625	.109

Based on table 3, it can be seen that managerial ownership has a significant effect on the Return on Assets (ROA) of banking companies which are the samples of the research in 2013 - 2017. It can be concluded that the first hypothesis (H1) states that managerial ownership has a positive and significant effect on Return On Assets (ROA) is statistically acceptable.

Institutional ownership does not have a significant effect on banking company Return On Assets (ROA) which is the sample of the 2013 - 2017. Research It can be concluded that the second hypothesis (H2) states that institutional ownership has a positive and significant effect on statistical Return On Assets (ROA) not acceptable.

Independent commissioners do not have a significant effect on banking company Return On Assets (ROA) which is the sample of the 2013 - 2017. Research It can be concluded that the third hypothesis (H3) which states that the independent board of commissioners has a positive and significant effect on Return On Assets (ROA) statistics are not acceptable.

IV. Discussion

Managerial ownership has a significant effect on return on assets (ROA). From these results, it means that if the proportion of managerial share ownership increases, it will significantly increase the return on assets (ROA) of banking companies listed on the Indonesia Stock Exchange in 2013 - 2017.

These results indicate that the importance of banking companies to increase the amount of shares held by managerial parties, because the proportion of managerial ownership in the company can increase the value of return on assets (ROA). This indicates that the greater the proportion of managerial ownership, the smaller the chance of conflict, because if the owner acts as the manager of the company, the decision-making will be very careful not to harm the company, and ultimately increase the return on assets (ROA). These results also indicate that if the ownership of shares owned by management is expected to be able to harmonize the different interests that occur between management and shareholders in corporate decision making. If the manager is also the owner of the company, the agency problem is assumed to be lost.

These results are also supported by the results of the decree analysis that has been conducted where there is an increase and decrease in the proportion of managerial ownership of banking companies in 2013 - 2017, which also has an impact on increasing and decreasing return on assest (ROA) of banking companies in 2013 - 2017 This was evidenced in 2014, the average managerial ownership declined, and directly affected the decline in the value of return on assets of the company, as well as in 2015, where the average managerial ownership declined, and the decline in the average value of ROA in the year 2015. In 2016, the average value of managerial ownership has increased and has an impact on the average value of ROA which has also increased, and in 2017 the value of managerial ownership has decreased which has an impact on decreasing the average value of ROA of the sample companies. This result is in line with research from Ongore at. al., 2011; Hamidah, at. al. ,, 2013; Gugong at al., 2014; Candradewi and PanjiSedana, 2016; Ramiyati, 2018; Ramiyati, 2018; Sianipar, at. al., 2018 which stated that managerial ownership has a positive and significant effect on return on assets.

Institutional ownership does not have a significant effect on return on assets (ROA). From these results it means that if the proportion of institutional share ownership increases and decreases, it will not significantly affect the return on assets (ROA) of banking companies listed on the Indonesia Stock Exchange in 2013-2017.These results indicate that the existence of a large proportion of institutional ownership has not been able to increase supervision efforts by the institution so that it cannot hinder opportunistic behavior of managers, who have not been able to assist the company's decision making, so it will not increase the return on assets (ROA) value. These results are also supported by the results of the decree analysis that have been carried out where the increase in the average proportion of institutional ownership of banking companies in 2013 - 2017 is not in line with the value of return on assest (ROA) of banking companies in 2013 - 2017. This is proven in 2014 the average institutional ownership increased, while the company's return on assets actually declined, as did 2015 where the average institutional ownership increased, the average value of ROA in 2015 also decreased. In 2016, the average value of institutional ownership declined while the average value of ROA has increased, and in 2017 the value of institutional ownership has increased, which has an impact on decreasing the average value of ROA of the sample companies.These results are in line with the results of research from Murni, 2015; Wiranata&Nugrahanti 2013 where institutional ownership has no significant effect on profitability and is contrary to the results of his research Masry (2016); Haryono (2017); Ramiyati (2018) which stated that institutional ownership has a positive and significant effect on ROA.

Independent commissioners do not have a significant effect on return on assets (ROA). These results mean that if the value of the proportion of independent commissioners in the company has increased and decreased, it will not significantly affect the amount of return on assets (ROA) of banking companies listed on the Indonesia Stock Exchange in 2013 - 2017.These results indicate that the influence of the independent board of commissioners is not significant because the existence of an independent board of commissioners in banking companies in 2013 - 2017 is still not effective in increasing the return on assets of the company. The board of commissioners and independent members have not been able to provide greater oversight of company management in improving company performance (ROA).These results are also supported by the results of the decree analysis that has been carried out where the increase and decrease in the average board of commissioners from banking companies in 2013 - 2017 is not in line with the value of return on assest (ROA) of banking companies in 2013 - 2017. This is proven in 2014 the average independent board of commissioners increased, while the company's return on assets actually declined, so did 2015 where the average independent board of commissioners increased, the average value of ROA in 2015 also decreased. In 2016, the average value of institutional ownership declined while the average value of ROA increased.This result is in line with the results of the research Hamidah at. al., 2013, Ongoreat.al., 2015; Candradewi&PanjiSedana, 2016 where independent board of commissioners has no significant effect on return on assets. But it's different with Ramiyati's research (2018); Sianipar at. al., (2018); Saputraat.al., (2017); Sumarno at.al., (2016) which stated that the independent board of commissioners has a positive and significant effect on ROA.

V. Conclusion

Managerial ownership has a significant effect on return on assets (ROA). This means that if the proportion of managerial share ownership increases, it will increase the return on assets (ROA). Institutional ownership have no significant effect on return on assets (ROA). This means that if the proportion of institutional share ownership increases or decreases, it will not affect the return on assets (ROA). Independent commissioner variables have no significant effect on return on assets (ROAThis means that if the value of the proportion of independent commissioners in the company has increased or decreased, it will not affect the increase in the return on assets (ROA).

Companies is expected to pay attention to the composition of managerial share ownership, this is because managerial ownership has a significant influence on the value of return on assest (ROA).Investors is expected to evaluate financial statements before investing, especially having to see the value of profit or profitability as seen from the value of return on assets. This is done so that investors can get a return on investment quickly.

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