

Effect Of Ownership Structure On Financial Decisions In The Manufacturing Sector On The Indonesian Stock Exchange

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Abstract: The effect of ownership structure on financial decisions of the manufacturing sector on the Indonesia Stock Exchange. This research aims to determine the effect of ownership structure on financial decisions on manufacturing companies listed on the Indonesia Stock Exchange. A sample of 11 manufacturing companies were listed on the Indonesia Stock Exchange during the 2014-2018 period. The research method uses structural equation modeling with the help of AMOS 21.0 software. The results showed that: (1) institutional ownership has a negative and not significant effect on investment decisions, and (2) The ownership structure has a positive and not significant effect on funding decisions.

Index Terms: Institutional Ownership, Investment Decisions, Funding Decisions

1. INTRODUCTION

In the process of achieving company goals, investment is one of the processes that can be traveled by the company. Managers who act as decision makers for the benefit of the company will produce the best financial decisions based on information available to them (Harneli, 2011). Financial decisions taken by managers include of investment decisions and funding decisions (Wibawa, 2010). Before making an investment decision, a rational investor will consider the expected income and the risks contained in the investment alternatives that he does (Rahmayani, 2008). Companies need investment to expedite the process of achieving company goals. Investment Opportunity Set is the value of the company, the amount of which depends on expenditure determined by management in the future, which at present is an investment choice that is expected to produce a greater return (Gaver, 1993 in Hasnawati, 2005). The funding decision concerns the composition of funding in the form of owner's equity, long-term liabilities and short-term liabilities or current liabilities (Darminto, 2008). Increased debt is interpreted by outsiders about the company's ability to pay obligations in the future or the presence of low business risk, this will be responded positively by the market (Brigham and Houston 2001). The higher ownership structure, the lower company's debt (Backtiar Ass get all, 2016). Agency theory deals with the principal-agent problem in the separation of ownership and control of the company. An agency relationship as a contract through one or more owners who hire others to perform some services on behalf of the owner by delegating some decision-making authority to the agent (Jensen and Meckling, 1967 in Putriningsih Ender, 2005). Institutional ownership is the percentage of company shares owned by institutional investors, both Non-Government Organizations, insurance, banks, government, and private companies (Bathala and Rao, 1994 in Faisal, 2003). Institutional ownership is the percentage of shares owned by corporate institutions at end of the year (Wahidahwati, 2002 in Eddy.S and Pranata P. 2003).

Institutional ownership generally acts as a party that monitors the company (Faisal, 2003). Institutional ownership does not affect all financial decisions or in other words that institutional ownership does not significantly influence investment decisions (Wahyudi and Pawestri, 2006). The more external ownership increases, the more effective the company's control of managerial behavior, so that managers use debt at a low level (Sujoko and Ugy S, 2007). The purpose of this research is to analyze the effect of ownership structure with institutional ownership indicators on financial decisions with indicators of investment decisions and funding decisions.

2. METHODS

Study Site

This research is an explanatory research which proves a causal relationship between good variables directly. This research is a research to examine the effect of ownership structure on the value of shares in manufacturing companies on the Indonesia Stock Exchange with structural equation modeling methods. The data used are historical data and financial data in the form of financial statements of companies going public on the Indonesia Stock Exchange from 2014 to 2018.

Population and Sample

The population of this research is all companies in the manufacturing sector which have been listed on the Indonesia Stock Exchange during the period of 2014-2018 as many as 162 companies which will be selected as a sample of 11 companies. The sampling technique used was non random sampling with a purposive sampling method with sampling in accordance with the stated research objectives. Publicly listed companies listed successively on the Indonesia Stock Exchange, not banking companies and other financial institutions, the company distributed cash dividends for 5 consecutive years in the 2014 observation period until 2018.

Technical Analysis

The data analysis technique used to discuss the problems in this study is the Structural Equation Model. The research paradigm stated in the form of structural equations is as follows:

$$Y1 = \gamma_1 X + \epsilon \dots \dots \dots \text{Similarity 1}$$

$$Y2 = \gamma_2 X + \epsilon \dots \dots \dots \text{Similarity 2}$$

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Dimana :

Where :

γ (gama) : Path coefficient that explains the effect of exogenous variables to endogenous variables. Like from X to Y1 and X to Y2.

ϵ : Residual variables related to endogenous variables.

Based on the Structural Equation Model assumptions, the index that can be used to test the feasibility of a model is shown in table 1.

Table 1. Goodness-of-Fit Testing Index

Goodness of Fit Measure	Critical Value (Cut of Value)
Chi Square (λ^2)	Expected to be small
Significance Probability	$\geq 0,05$
RMSEA	$\leq 0,08$
GFI	$\geq 0,9$
AGFI	$\geq 0,9$
TLI	$\geq 0,95$
CFI	$\geq 0,94$

Source : Ansori & Denica (2010)

3. RESULTS AND DISCUSSION

Goodness of fit test results can be seen in table 2 where the chi-square value of 108,122 shows a high enough value but with a high degree of freedom will reduce the che-square value until it will become fit. Next the Significance Probability value of 0,000, which means it is very significant because the value is smaller than 0.05. Other criteria that indicate that the model is worthy of research are GFI, AGFI and TLI whose values are in the criteria that are quite fit with a GFI value of 0.770, AGFI of 0.548, and TLI of 0.665 while the cut-off must be greater than 0.90. So that the values of GFI, AGFI and TLI are within the criteria that are quite fit and feasible to follow up.

Table 2. Goodness-of-Fit Testing Index

Goodness of Fit Measure	Critical Value (Cut of Value)	Result	Information
Chi-square	Not expected to be significant	108,122	Fit
Significance Probability	$\leq 0,05$	0,000	Very Significant
RMSEA	Between 0,05-0,08	0,230	Simply Fit
GFI	$\geq 0,90$	0,770	Simply Fit
AGFI	$\geq 0,90$	0,548	Simply Fit
TLI	$\geq 0,95$	0,665	Simply Fit

Sorce : Data will be processed in 2019

The estimated goodness of fit structural model can be fulfilled, so the next step is an analysis of the structural model relationship. To analyze more clearly the effect of ownership structure on the value of financial disconnection can be seen from the relationship between constructs in the hypothesis shown by the regression weights value in table 3 below:

Table 3. Hypothesis Testing Results

Hypot he sis	Variable	Estimate	S.E.	C.R.	P	Informati on	
Direct Influence							
H1	Y1 <---	X	-8,524	37,341	-0,228	0,819	Receive d
H2	Y2 <---	X	0,002	0,001	1,692	0,091	Receive d

Sorce : Data will be processed in 2019

From the results of statistical calculations using SEM AMOS 21.0 it is known that institutional ownership has a negative and

not significant effect on investment decisions. This can be seen from the value of CR = -0.228 (P = 0.819 \geq 0.05) or in other words that the t-value of -0.228 is greater than the t-table of -1.679 with an effect coefficient of -1.451, meaning that the more the higher institutional ownership, the lower the company's investment. The ownership structure has a positive and not significant effect on funding decisions. This is indicated by the value of CR = 1.692 (P = 0.091 \geq 0.05) or in other words that the t-value of 1.692 is greater than the t-table value of 1.679 with an influence coefficient of 0.013, meaning that the greater institutional ownership the greater the company's debt.

4. CONCLUSION

From the results of research and discussion in this study it can be concluded that: 1) Institutional ownership negatively influences investment decisions, which indicate that the higher the institutional ownership, the lower the company's investment. 2) Institutional ownership has a positive effect on funding decisions which indicate that the higher the institutional ownership, the lower the company's investment.

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