

THE EFFECT OF CAPITAL STRUCTURE, INSTITUTIONAL OWNERSHIP, AND COMPANY SIZE ON FINANCIAL PERFORMANCE

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Abstract. The aim of this study was to determine the effect of capital structure, institutional ownership, and company size on the financial performance of insurance sub-sector companies listed on the Indonesia Stock Exchange in the 2017–2021 period. This data was tested using the panel data regression method. The population used is the insurance companies listed on the IDX in 2017–2021. Based on the sample selection, 15 insurance sub-sector companies were selected for five years period of study. So the total number of observational data in this study was 75. However, only 70 data can be used because there are 5 outliers. The results of this study show that capital structure, institutional ownership, and company size simultaneously influence the company's financial performance. Partially, institutional ownership and company size influence the company's financial performance. While the capital structure does not have any effect on financial performance.

Keywords: capital structure; institutional ownership; company size; company's financial performance

I. INTRODUCTION

The competitive advantage of the company is evidence of realizing the company's goals. The main goal is to achieve maximum profit, which means that the company must carry out activities effectively and efficiently. Companies are required to improve their performance by using resources more effectively and efficiently to create value-added and compete in a competitive market (Hapsari [1]). A company in doing business certainly has several goals to be achieved. Generating a profit is one of the company's goals in running a business. Changes in the development of Indonesia's economic industry nowadays have progressed toward Industry 4.0, including the insurance industry (Hanisah et al. [2]). Therefore, companies must be able to compete with other parties to gain profits. To generate these profits, the company needs good performance and management. Assessment of financial performance can be used to determine a company's profit by comparing the profit of certain years with the profit of previous years. It can be measured by several ratios, namely liquidity ratios, solvency ratios, activity ratios, and profitability ratios (Hery [3]). One indicator that can be used to calculate the profitability ratio is to use the calculation of return on assets, which is a ratio that describes the company's ability to earn profits from the company's total assets (Yuliandhari et al. [4]). Return on Assets (ROA) has an advantage, namely being able to measure efficiency thoroughly on everything that affects the company's financial condition. The higher the return on assets, the higher the profit produced by the company. On the contrary, a lower and lower return on assets means lower profits generated by the company (Ramadita & Suzan, [5]). The theory underlying this research is agency theory, namely the relationship or contract between the owner of the company (principal) and the manager (agent).

Problems related to financial performance in the insurance sub-sector occurred with PT. Jiwasraya which failed to pay for its JS Saving Plan product. It was initially detected that there was an abnormal investment in 2016. However, from 2013-2017 PT. Jiwasraya's premium income continued to increase due to the JS Saving Plan product. In 2018 an evaluation was carried out on the JS Saving Plan and there was a replacement of the directors. The new Board of Directors reports if there are irregularities in the financial statements based on the audit results of the 2017 financial statements. The audit results found that the profit decreased from IDR 2.4 trillion to IDR 428 billion. Then PT. Jiwasraya announced that it was unable to pay claims due for the JS Saving Plan product of IDR 802 billion (CRMS Indonesia [6]). In addition, there is a phenomenon of PT. Asuransi Bintang that have financial performance in the third quarter of 2021, that caused by customers' payable ability. In September 2021, they have gross premium about Rp. 327.22 billion, decrease from the third quarter of 2020 about 2.67%. They also recorded have business loss of IDR 5.75 billion due to impact of Covid 19 pandemic (Bisnis.com [7]). There are several aspects that can affect a company's financial performance. The first is the capital structure. According to Brigham and Houston (Ritonga et al. [8]), the optimal capital structure is the ratio of using the company's own capital to using long-term debt. The higher the capital structure, the better the financial performance (Ningsih & Utami [9]). According to research (Fauzi et al. [10]), capital structure has an influence on financial performance. Meanwhile, it is different from research according to Rahmatin & Kristanti [11], namely that capital structure has no influence on financial performance. Having an adequate capital structure makes it easier for companies to develop resources and increase productivity in order to maximize profits, thereby increasing financial performance

(Luthfiana & Dewi [12]). The second aspect that can affect financial performance is institutional ownership. Institutional ownership is a form of share ownership in institutions or other institutions such as banks, insurance companies, investment trusts, and other institutions (Farahdiba & Hendrawaty [13]). Institutional ownership can also be used as a tool to reduce conflicts of interest. In contrast to research by Rahardjo and Wuryani [14], institutional ownership has no effect on financial performance. The third aspect is company size. Company size is a stage that shows the level of development of company operations. Company size can be measured by asset size, which is measured by the logarithm of total assets. The larger size of the company as measured by the total fixed assets owned by the company, and the growth of fixed assets owned by the company can increase the size of the company. According to research (Fitriyani [15]), company size has an influence on the company's financial performance. It contrasts to research by Septiono and Mulyadi [16], company size has no effect on financial performance. Therefore, the purpose of this study is to determine the effect of capital structure, institutional ownership, and company size on the financial performance of insurance sub-sector companies listed on the Indonesia Stock Exchange (IDX) in 2017-2021.

Jensen and Meckling in Ivan & Raharja [17] define an agency relationship as a contract under one or more principals that involves agents to realize some services for them by delegating decision-making authority to agents. Problems arising from conflicting interests are also called agency problems that are divided into two types, namely inter-principal problems. Based on the firm's agency theory, financial performance must be monitored to ensure management is under regulations (Kurniawati et al. [18]). Agency theory assumed that if all individuals act for their own interests, the principal is only interested in the return of the investment, while the agent will be satisfied with receiving financial compensation with term and conditions (Adnanti & Triani [19]).

Financial performance is a measure of the success of a company's efforts to manage its resources (Nusah & Pondang [20]). The company's financial performance will look good if it has steady profit growth (Hermawan [21]). For stakeholders and investors, the company's financial performance can provide relevant data to support the decision-making process (Mahardika&Sedovandara [22]). In assessing the company's financial performance, it can use financial ratios. According to Hery [3], the measuring instruments for financial ratios are liquidity ratios, solvency ratios, activity ratios, and profitability ratios. In this study, profitability ratios are used.

According to Fahmi (Martiana et al. [23]), profitability is the ratio measuring the effectiveness of management as a whole, which is indicated by the size of the level of profit obtained in sales and investment. (Hery [3]). The profitability ratio is the ratio used to measure a company's ability to earn profit from daily operational activities. Profitability can be measured using several indicators, namely return on assets (ROA), return on equity (ROE), gross profit margin (GPM), operating profit margin (OPM), and net profit margin (NPM). The proxy used in this study is ROA.

Capital structure is the composition of the company's capital for financing its activities (Olamide & Paul [24]). Companies must be able to make rational decisions when

determining financing through debt (Pahlevi & Anwar [25]). An optimal capital structure will increase the growth and resilience of the company as well as the achievement of its long-term goals. By achieving the company's goals, the company's financial performance also increases. According to Horne and Wachowis (Pahlevi & Anwar [25]), capital structure can be measured using the debt-to-asset ratio (DAR) and debt-to-equity ratio (DER). In this study using DER.

H1: Capital structure has an influence on financial performance.

According to Tarjo (Andini et al. [26]), Institutional ownership is the ownership of shares by institutions or entities such as governments, banks, insurance companies, investment trusts, and other institutions. Institutional ownership also has an important role in reducing agency conflicts that occur between managers and shareholders. Institutional ownership has important implications for management oversight because the existence of institutional ownership facilitates a more optimal increase in oversight. The greater the level of institutional ownership, the more control over management can make performance more effective (Andini et al. [26]).

H2: Institutional ownership has an influence on financial performance.

According to Dewi and Jati (Andini et al. [26]), company size can reflect the size of the company as seen from the total assets. According to Hartono (Hasti et al. [27]), company size can be measured by taking into account the logarithmic value of total assets. The larger the size of the company will also have an impact on the company, namely the number of investors who want to pay attention to the company. H3: Company size has an influence on the company's financial performance.

II. RESEARCH METHODS

In this study, the research methodology used was quantitative method including descriptive research. Descriptive research has a goal to develop a description or a systematic description of the phenomena studied based on facts (Ramadhan [28]). The subjects of this study are insurance sub-sector companies listed on the Indonesian Stock Exchange in 2017–2021. This research uses panel data because it uses cross-sectional and time series data. A purposive sample approach that used in this study with the following criteria: 1) Insurance sub-sector companies listed on the Indonesia Stock Exchange in 2017–2021 2) Insurance sub-sector companies that were inconsistently listed on the Indonesia Stock Exchange during 2017–2021. Based on these criteria, there have been 15 companies for five years that meet the criteria. There is 75 company fulfill the criteria, but there are five data outliers, so the total observations become 70. Dependent variable is a variable that affected or becomes the result of the independent variable. In this study, dependent variable is financial performance where the condition of the company in a period proxied using Return on Assets (ROA).

III. RESULTS AND DISCUSSION

Descriptive Statistics

Table 1. Descriptive Statistical Test Results

Variabel	N	Mean	Maximum	Minimum	Std.Dev
Y	70	0.030264	0.076736	-0.042526	0.025853
X1	70	1.280977	3.368559	0.143664	0.815307
X2	70	0.659237	0.897320	0.205658	0.204709
X3	70	28.11634	31.19421	25.83686	1.513298

Source: Data processed by the author, 2023

Table 1 shows the results of the descriptive statistical test of the research variables on financial performance. It explains that the company's financial performance (Y) has an average value of 0.030264 with a standard deviation value of 0.025853, which shows grouped or homogeneous data. Capital structure (X1) has an average value of 1.280977, which is higher than the standard deviation value of 0.815307, which shows grouped data and is homogeneous. Institutional ownership (X2) has an average value of 0.659237 with a standard deviation value of 0.204709, which indicates homogeneous or grouped data. Firm size (X3) has an average value of 28.11634, which is greater than the standard deviation value of 1.513298, which shows the data are grouped (not varied) and homogeneous.

Classical Assumption Test

a) Multicollinearity Test

Table 2. Results of Multicollinearity Test

	X1	X2	X3
X1	1.000000	0.055406	-0.331447
X2	0.055406	1.000000	-0.023657
X3	-0.331447	-0.023657	1.000000

Source: Output Evaluations 12.0, 2023

Based on Table 2, it is explained that independent variables in this study have correlation values < 0,8.

b). Heteroskedasticity Test:

Table 3. Heteroskedasticity Test Result

Heteroskedasticity Test: White

Null hypothesis: Homoskedasticity

F-statistic	1.133465	Prob. F(9,60)	0.3541
Obs*R-squared	10.17195	Prob. Chi-Square(9)	0.3367
Scaled explained SS	16.36623	Prob. Chi-Square(9)	0.0596

Source: Output Evaluations 12.0, 2023

Table 3 shows that the probability value Obs*R-squared is 0.3367 > 0.05, meaning this study's regression model does not occur heterosexuality, so regression models are classified as homoscedasticity.

Panel Data Regression Analysis

Table 4. Results of Common Effect Model

Dependent Variable: Y

Method: Panel Least Squares

Date: 05/05/23 Time: 21:53

Sample: 2017 2021

Periods included: 5

Cross-sections included: 15

Total panel (unbalanced) observations: 70

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.211701	0.048490	-4.365840	0.0000
X1	-0.004514	0.003066	-1.472425	0.1457
X2	-0.030484	0.011523	-2.645407	0.0102
X3	0.009526	0.001650	5.774739	0.0000
Root MSE	0.018997	R-squared		0.452248
Mean dependent var	0.030264	Adjusted R-squared		0.427350
S.D. dependent var	0.025853	S.E. of regression		0.019564
Akaike info criterion	-4.974793	Sum squared resid		0.025262
Schwarz criterion	-4.846307	Log likelihood		178.1177
Hannan-Quinn criter.	-4.923757	F-statistic		18.16417
Durbin-Watson stat	1.056275	Prob(F-statistic)		0.000000

Source: Eviews Output 12.0, 2023

The panel data regression equation can be calculated using the Common Effect Model test results as follows:

$$Y = -0.211701 C - 0.004514 X1 - 0.030484 X2 + 0.009526 X3 + e_{it}$$

Based on Table 4, it can be seen that:

1. If the constant value (C) is -0.211701, meaning that X1, X2, and X3 are worth 0, then the company's financial performance has decreased by 0.211701.
2. X1 coefficient value is -0.004514, meaning that the company's financial performance has decreased by 0.004514 units if the X1 variable value has increased by one unit, assuming the other independent variables are zero.
3. The value of the regression coefficient X2 is -0.030484, meaning that the company's financial performance will decrease by 0.030484 units if the value of the X2 variable experiences one additional unit assuming the other independent variables are zero.
4. The value of the regression coefficient X3 is 0.009526, meaning that the value of the company will experience an increase of 0.009526 units if the value of the variables X3 increases by one unit assuming the other independent variables are zero.

Table 5. Test Results for the Coefficient of Determination

Root MSE	0.018997	R-squared	0.452248
Mean dependent var	0.030264	Adjusted R-squared	0.427350
S.D. dependent var	0.025853	S.E. of regression	0.019564
Akaike info criterion	-4.974793	Sum squared resid	0.025262
Schwarz criterion	-4.846307	Log likelihood	178.1177
Hannan-Quinn criter.	-4.923757	F-statistic	18.16417
Durbin-Watson stat	1.056275	Prob(F-statistic)	0.000000

Source: Eviews Output 12.0, 2023

The adjusted R-squared is 0.427350, or 42.7%. This study shows that the capital structure variables, institution ownership, and size of the company can explain the company's financial performance by 42.7%, while 57.3% is described by other variables.

Table 6: Simultaneous Results

Root MSE	0.018997	R-squared	0.452248
Mean dependent var	0.030264	Adjusted R-squared	0.427350
S.D. dependent var	0.025853	S.E. of regression	0.019564
Akaike info criterion	-4.974793	Sum squared resid	0.025262
Schwarz criterion	-4.846307	Log likelihood	178.1177
Hannan-Quinn criter.	-4.923757	F-statistic	18.16417
Durbin-Watson stat	1.056275	Prob(F-statistic)	0.000000

Source: Output Eviews 12.0, 2023

Table 6 explains that the probability (F-statistic) value is 0.000000 < 0.05. Thus, capital structure, institutional ownership, and company size simultaneously influence the company's financial performance in insurance sub-sector companies listed on the IDX for the 2017–2021 period.

Table 7 Results of the Partial Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.211701	0.048490	-4.365840	0.0000
X1	-0.004514	0.003066	-1.472425	0.1457
X2	-0.030484	0.011523	-2.645407	0.0102
X3	0.009526	0.001650	5.774739	0.0000

Effect of Capital Structure on Company Financial Performance

Based on Table 7, the probability value of the capital structure (X1) is 0.1457 > 0.05, so the H1 hypothesis is rejected. Thus, the capital structure as a measure of the efficiency of financing through debt indicates that the larger company is find by debt, the lower the company's financial performance. The results of this study are harmonious with Harsono and Pamungkas' research (2020), which found that capital's structure did not have any effect on a company's financial performance.

Effect of Institutional Ownership on Company Financial Performance

Based on Table 7, it is known that the probability value of institutional ownership is 0.0102 < 0.05, so H2 is accepted. The higher the percentage of institutional ownership, the lower the financial performance will be because this ownership is uncertain, so huge institutional ownership can be interpreted as only focusing on short-term profits.

Effect of Company Size on Company Financial Performance

Based on Table 7, noted that the probability value of company size is < 0.05, so H3 can be accepted. If the size of the company is larger, it easier to predict the profit generated. So that the companies which have a large number of assets will easy get funding from external parties because large companies have better management than small companies. It will have an impact on improving the company's financial performance. The results of this study support research conducted Rahardjo, and Wuryani [14], which proves that company size significantly affects financial performance.

IV. CONCLUSION

Based on this study, we can conclude that the capital structure, institutional ownership, and company size simultaneously have an influence on the company's financial performance. A partial capital structure has no effect on the financial performance of insurance companies listed on the Indonesia Stock Exchange in 2017–2021. Partial institutional ownership and company size have an influence on the financial performance of insurance companies listed on the Indonesia Stock Exchange in 2017–2021. For further study, it is expect to use other research objects such as the banking sector, the raw goods sector, the energy sector, and the health sector. For the companies, this research can be used as a reference for insurance sector companies in making decisions about improvement factor of financial performance for business continuity, such as capital structure, institutional ownership, and company size.

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