Managerial and Institutional Ownership Analysis to National Private Banking Profitability at Indonesia Stock Exchange 2005-2009

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Abstract: ***This research was determined the describtion of managerial and institusional ownership to profitability using verification method and with multiple regression analysis. The sample as much as 16 national private banking and company financial report listed in IDX. The results of this study indicate national private banks have smaller managerial ownership compared with total research samples, while the opposite almost all national private banking listed on the Stock Exchange has institutional ownership. Profitabilty level (ROE) national private banking companies listed on the Stock Exchange was pretty good. The average ROE for the year 2005-2009 amounted to 7.77%. Other results show that there is a positive effect between institutional ownership with profitability and there is no effect between managerial ownership with profitability.***

Keywords: managerial ownership, institutional ownership**.**

1. Introduction

In 2010, 31 banks listed on the Indonesia Stock Exchange (BEI), 25 banks are among national private banks and the rest are state owned banks. Performance of national private banking in 2005-2010 has decreased. Decline in ROE in 2010 is equal to -20.66% or decreased by 16.91% from 2009. It is means, performance of national private banking has decreased in 2010 and ROE private banks declined -20.66%. Institutional ownership more dominant than the 3.53% managerial ownership in 2009 and has decreased when compared with 2008 at 5.57%. Most of the national private banking stocks on the Stock Exchange are held by institutions (71.80% in 2009 and an increase when compared with 2008, amounting to 68.98%).

The low percentage of managerial ownership in a corporation would result in an institutional party holds a majority stake free to contribute in banking management decisions. This is because the institutional tend to be more interested with big dividend and demanded the management to meet their demands. This resulted in the agency conflict of interest (agency problems). A company that separates the functions of management and ownership functions are susceptible to agency conflicts Jensen and Meckling (1976) in Sugiarto (2009: 22).

On the other hand, the decrease in profitability and a small percentage of managerial ownership compared with institutional ownership are agency problems at banking in Indonesia to investigate. Based on the research background, how outcome Managerial Ownership Analysis Of Institutional Ownership and Profitability of National Private Banking in Indonesia Stock Exchange 2005-2009.

2. Literature

Shareholders have the right and responsibility as a business owner. They have the right to determine the direction and policies of the company through a public general meeting of shareholders (AGM). Surely their rights are limited by the percentage of shares they own by force of the principle of "one share one vote". In modern enterprises, the ownership of the company is usually very spread out. Activities of daily operations are run by managers who do not normally have a large ownership stake. Sujoko & Soebiantoro (2007:44), "The structure of ownership is the proportion of institutional ownership and management in the ownership of company stock. Ownership structure can be individual investors, government, and private institutions.

Manajerial Ownership

“"Managerial Ownership is ownership by company management as measured with percentage of shares owned by management" (Sujoko and Soebiantoro, 2007:44). Syamsul Rizal (2007:32) said that "Managerial ownership shows managers ownership of shares in a company". This means that a manager will double based, not only as a manager but also a shareholder. With the dual position of a manager in any decision making has two interests, the interests of the manager of the company on the other side with the interests of shareholders. Hopefully with this position, the manager can take the right decisions for management and shareholders because he does not want the decision to be taken is detrimental to its position, both as managers and shareholders.

Kartika Nuringsih (2005:108) states that "The manager should have the opportunity to be involved in the shares ownership with a view to gaining a (position) shareholders". Through this policy managers are expected to result in a good performance as well as direct dividends at low levels. By setting the lower dividend the company has retained earnings in the industry that has a relatively high internal cash resources.

Institutional Ownership

Institutional Ownership is ownership of company stock by the institution such as insurance companies, banks, investment companies and other institutional ownership (Tarjo, 2008:5). Meanwhile, according to Sujoko and Soebiantoro (2007:44), institutional ownership is the proportion of stock ownership by institutions founder, not the institution of public shareholders as measured by the percentage of shares held by intern institutional investors. Institutional ownership measured by shares ownership proportion held by institutional owners and ownership by a blockholder (Wahyudi and Pawestri, 2006:6).

Diyah and Erman (2009:74) states that institutional ownership is shares ownership proportion owned by institutional owners such as insurance companies, banks, investment companies and other holdings except its subsidiaries and other institutions that have a special relationship (the affiliates and associates) on a report prepared by the data on the Jakarta Stock Exchange and the stock ownership by blockholders is shares owned by individuals above 5% for three consecutive years but not included in the class of insider ownership. The parties can affect to company value with the role as monitoring management or control forms to the management.

According Tarjo (2008:10), generally, institutional investors are substantial shareholders also have large funding. There is assumption that companies with large financing, there is little possibility of bankruptcy risk.That its presence will enhance public confidence to the company. In addition, the concentration of institutional ownership makes the owner can act in self-interest. Majority owner could be part of the top management or even put the person to be the manager itself.

Profitability

In Komaruddin Sastradipoera (2004:274), banking business profitability is ability to earn a profit by investing. Profitability can be measured in terms of absolute dollars, such as net income or based on the ratio. Munawir (2004:33), profitability is showing company ability to generate profit for the period. Company profitability measured by company success and ability to use assets productively, thus the company profitability can be determined with comparing profits earned during the period by total assets or total capital of the company.

An organization must be profitable in order to survive. Banks profitability is the ability of a bank to make a profit in percentage. Earning profitability used to measure the efficiency of use of capital used in operations. Therefore for management or other parties, high profitability is more important than profits. Companies will always seek to enhance profits earned, but more important is the effort to increase profitability. Meanwhile, according to Lukman DendaWijaya (2005:118), banking profitability as follows: 1. Return on Assets (ROA), 2. Return on Equity (ROE), 3. Operating expense ratio (ROA), 4. Net Profit Margin (NPM). Profitability assessment used by the ownership structure of the bank is the Return on Equity (ROE). Ownership structure seen by the shares composition held by shareholders. ROE is a company's ability to generate a profit for common shareholders. This ratio shows the company's profits are derived from (or to the right) own capital. banks profitability is banks ability to generate earnings. Banks profitability level analysis is describing ability banking business to make a profit based investments. For the owners of capital, profitability analysis is important to know the banks in generate earnings. Prosperity owners/shareholders increases when banking profitability is high. With the high profitability of the stock prices rise and prosperity of the owners will also rise.

Finally, the profit is not to be an absolute indicator that the company has been operating efficiently. Efficient level can be measured by comparing the profits gained by wealth or capital to generate profits. Banking profitability that reflects the level of business efficiency and performance of the banking sector. Usually when high profitability will reflect higher earnings and will affect the bank's share price.

Agency Theory

Agency theory discusses the existence of an agency relationship between the principal to the agent. Jensen and Meckling (1976) in Sugiarto (2009) define an agency relationship as "a contract stating that one or more persons (the principal) to ask the other person (the agent) to perform certain services for the benefit of the principal, to authority delegate". Authority delegation. Delegation of authority has become a necessity in the agency relationship to allow the agent to the principal accountable for its performance. In any agency relationship, agency costs incurred arising either by the principal or by the agent and explains how the parties enter into a contract to design contracts that aim to minimize the cost as a result of the asymmetric information and uncertainty.

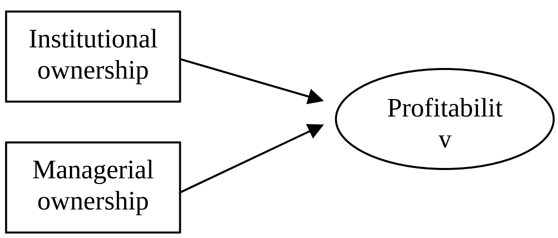
Agency theory assumed, the agent and the principal of each motivated by their own interests that create conflicts of interest between the principal and agency interests. The principals are motivated to prosper himself with ever increasing profitability. Agents are motivated to maximize the economic and psychological needs, among other things, obtaining investments, loans, and contracts and bonus compensation. Interest conflict has increased mainly because the principal can not monitor the activities day-to-day management to ensure the management worked in accordance with shareholders wishes.

Finally, Sugiarto (2009:22) in the modern economic system said that many companies are not managed by the owner but by professional managers who are compensated to run the company appropriate for owner interest. Separation of ownership, management functions and the small percentage of managerial ownership in a company, tends to lead to management action to pursue the interests of himself and is not based on maximizing the value of the funding decision. Syamsul Rizal (2007:51) states that management ownership and institutional ownership structure will affect the capital structure because of the greater management ownership, so that company management will be more careful in deciding policy loans, while institutional ownership role as monitoring agent. It illustrates that management ownership and institutional ownership structure could affect banking activities, because management will be very careful in deciding policy and no monitoring debt owners to management, so that relationship affects banking performance will increase and banking profitability increased as well.

Banking profitability appreciable from performance and efforts carried out by management and owners (shareholders) to make profit. Banking profitability in this study measured by return on equity (ROE) Lukman expressed Dendawijaya, (2005:119) that the ratio between net income ROE banks with their own capital as well as an indicator for shareholders and potential investors to measure the ability of banks to make a profit net associated with the payment of dividends. With ROE, investors can measure the extent to which a bank can manage their money as well. Sujoko & Soebiantoro (2007:42) states that the ownership structure affect capital structure determination. Action decisions concentrated share ownership will tend to reduce the debt, the owner, supervision of management will be more effective. Management will be more careful in borrowing. If the decision ignored the amount of debt that is too high will lead to the risk of financial distress (financial difficulties) so that the value of the company will decrease.

Finally two concentrated ownership structures can affect lending decisions that can reduce the risk of financial distress. If the risk of financial distress can be reduced, then the firm will increase profits obtained and different. This means that indirectly, concentrated ownership structures can affect the profitability of different companies in banking. Based on the study is described:

Research Framework



Based on the above opinion, hypothesis of this study about influence of Managerial Ownership and Institutional Ownership to banking profitability.

3. Method

Research object in this study is banking shares ownership proportion, manajerial and institutional ownership. Managerial ownership is banking shares ownership by banking management. Institusional ownership is banking shares ownership by banking institution. While the banking profitability in this study is bank ability to generate profits associated capital represented with percentage.

This study uses secondary data verification, where the population of this study is the National Private Banking listed in Indonesia Stock Exchange during 2005 to 2009 with retrieve data in the form of financial statements in 2005-2009. The reason sample using for the year 2005 as the year to the first year of recovery from the Government in 2004 political crisis issues, 6 years after the economic crisis of 1998 and the recovery politikdi 1 year after the economic crisis of 2008 on the National Private Bank in Indonesia Stock Exchange as an effort to improve its performance.

Variable Operationalization

Variable, concepts, indicators, and the scale of measurement in this study as follows:

Variable	*Concepts*	*Indicators*	*Scale*
Manajerial ownership (X_1)	Shares ownership by company management as measured with percentage of shares owned by management (Sujoko and Soebiantoro, 2007:44).	$\frac{\text{totalshareownedbymanagem}}{\text{Totalshares}}$	Ratio
Institutiona l ownership (X_2)	Stock ownership by institutions or organizations such as insurance companies, banks, investment companies and other institutional ownership (Tarjo, 2008:5).	$\frac{\text{totalshareownedbyinstitutio}}{\text{totalshares}}$	Ratio
Profitabilit y (Y)	Banking ability to make a profit which expressed in percentage (Malayu Hasibuan, 2002:100)	-ROE= $\frac{\text{Netprofitx100}}{\text{equity}}$ X 100%	Ratio

The data used sample in 16 National Private Bank by:

1. National private banks data in IDX time period were obtained from Statistics IDX, Corner Indonesia Stock Exchange, Bank Indonesia, Bank Indonesia's website, and the website of each bank
2. The research was conducted on a national private banks listed in IDX during period 2005-2009.
3. The research was conducted on a national private banks issued financial statements for ended period December 31, during 2005-2009.
4. The research was conducted on a national private banks have data managerial ownership, institutional ownership from 2005-2009.

National Private Banks in IDX

No.	Bank	Registered Date
1	PT. Bank Pan Indonesia Tbk	29 Desember 1982
2	PT. Bank Internasional Indonesia Tbk	21 November 1989
3	PT. Bank CIMB Niaga Tbk	29 November 1989
4	PT. Bank Danamon Indonesia Tbk	06 Desember 1989
5	PT. Bank Permata Tbk	15 Januari 1990
6	PT. Bank Artha Graha Internasional Tbk	29 Agustus 1990
7	PT. Bank OCBC NISP Tbk	20 Oktober 1994
8	PT. Bank Mayapada Internasional Tbk	29 Agustus 1997
9	PT. Bank Victoria International Tbk	30 Juni 1999
10	PT. Bank Mega Tbk	17 April 2000
11	PT. Bank Central Asia Tbk	31 Mei 2000
12	PT. Bank Nusantara Parahyangan Tbk	10 Januari 2001
13	PT. Bank Pundi Indonesia Tbk	13 Juli 2001
14	PT. Bank Swadesi Tbk	01 Mei 2002
15	PT. Bank ICB Bumiputera Tbk	15 Juli 2002
16	PT. Bank Kesawan Tbk	21 November 2002

4. Results

Banking industry is one of very important in national economy. Banking industry in Indonesia based in the country where 70% of public funds in the banking sector. As one of sub-system of financial services industry, banks could be considered as financial services heart. If the bank has experienced a problem, this is a sign that the trouble in economy of a country. In addition, banking industry is an industry which very relying on public trust (fiduciary financial institution).

Managerial ownership is generally a stock ownership by management are actively involved in making important decisions in a company (directors and commissioners) as measured by the percentage of total stock ownership. Lack of national private banking managerial ownership in IDX lead agency problems on national private banking in Indonesia has become immense. Increasingly low managerial ownership illustrates that potential conflicts of interest between management and the owners/shareholders greater banking.

Then, based on the bank's annual report publication IDX average percentage of institutional ownership in 2005-2009 at national private banks have increased. Average number of firms which have institutional holdings amounted to 15 companies with an average percentage of institutional ownership of 67.28%. The number indicates that institutional ownership at national private banking firms listed in IDX is high.

The results of research about managerial ownership and institutional ownership to national private banking profitability listed on the Indonesia Stock Exchange during 2005-2009 with the results of multiple regression analysis as follows:

$$Y = -52,254 + 2,146\,X_1\,(0,43) + 63,598\,X_2\,(7,98)$$

In this study, multiple linear regression analysis performed using SPSS 17.0 software applications. The results of multiple regression calculation can be seen in the following table:

Regression Calculation Summary

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-52.254	7.656		-6.825	.000
	Manajerial Ownership	2.146	4.942	.037	.434	.665
	Institutional Ownership	63.598	7.969	.673	7.981	.000

a. Dependent Variable: Profitabilitas

The interpretation from above equation is:

1. a = constant value -52.254 indicating that absence of managerial ownership and institutional ownership variables, company profitability amounted to -52.254. This means that changes level profitability of -52.254%.
2. b_1 = regression coefficient 2.146 which suggests that any increase in managerial ownership of one unit then profitability (ROE) will be increased by 2.146 percent.
3. b_2 = regression coefficients 63.598 indicating that any increase in institutional ownership of one percent, profitability (ROE) will be increased by 63.598 percent.

This study shows the average bank in BEI who has managerial ownership at 2005-2009 are 4 companies with an average percentage of managerial ownership of 3.96%. The number and percentage of average managerial ownership is quite low. This indicates that there are still very few National Private Banking in Indonesia that management of banking shares in IDX.

For banks with managerial ownership at low or no managerial ownership, the risk will be greater agency problem because the agent (management) tend to promote their self-interest and ignore company ownership interests. The low percentage of managerial ownership in a company, tends to lead management action to pursue interests and is not based on maximizing the value in making funding decisions because management does not bear the risk of errors in decision-making, risk is entirely borne by the shareholders (the principal).

Based on analysis, average number development of firms that have institutional holdings amounted to 15 companies with an average percentage of institutional ownership of 67.28%. The percentage shows that institutional ownership at national private banking firms listed in IDX is high. This shows that all decisions regarding the company held by shareholder as an institution. The presence of shares in IDX as investors imaging, not showing the performance of banking and investor understanding limitations about ownership.

While other high institutional ownership have a positive impact for management control to management performance. The greater institutional ownership, company will have major source of funding that imanaged owner was able to demonstrate the performance and social responsibility. This is in accordance with Tarjo (2008:10) opinion about institutional investors are generally substantial shareholder and also have large funding. Companies that have large funding have less risk when it went bankrupt.

Based on profitability analysis, by using ROE for period 2005-2009, Private Banking profitability conditions listed in IDX had an average ROE of 7.77%. This means that during 2005-2009 private banking companies nationwide capable to generating profit at 7.77% of all capital invested.

Statistical test results show that managerial ownership has no effect to profitability (ROE) on national private banking at 2005-2009. These results demonstrate managerial ownership variable has no effect to profitability (ROE). The results in this study support the research conducted Anindhita Ira Sabrina (2010:65) who conducted a study on the effect of managerial ownership on corporate performance as measured by Return On Equity (ROE) and the results of study showed no significant relationship between managerial ownership to ROE.

5. Conclusion

Statistical test results showed variable institutional ownership has a positive and significant effect to profitability (ROE). This means that the greater institutional ownership will increase the national private banking profitability listed in IDX. These findings indicate effective institutional ownership to control banking activities are performed by management. It also demonstrates the ability of institutional ownership to control debt policy (Moh'd et., El., 1998).

In addition, the positive effect of institutional ownership to profitability because most institutional investors have great confidence that funding an effort to increase public confidence, cultivate social responsibility (Matteww, Brine, 2008) and the sustainability of bank guaranteed. This thinking the same with Marcia Millon Cornett et.el. (2007), which revealed that investors on institutional ownership correlated with bank performance. The results are consistent with Xu and Wang (1997), Pizarro et al. (2006) and Bjuggren et al. (2007) in Tarjo (2008:10) who found that the positive effect institutional ownership to firm value and performance.

Finally, the results of this study indicate ownership on profitability following that managerial ownership has no effect to ROE on national private banking listed in IDX and institutional ownership positively affect to ROE. This means, the higher institutional ownership, the higher level national private banking profitability in IDX.

6. Recommendation

Based on the findings, the researchers propose research on improving profitability, debt policy and dividend policy at company that do not go public or go public in other subsectors for further research. In a subsequent study analyzing managerial and institutional ownership to profitability with ROA indicator. In a subsequent study of managerial and institutional ownership to profitability, which distinguished between domestic ownership/state outside the BEI.

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Author Profile

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Coefficient of Determination

In this study testing the research model used the coefficient of determination. The function of determination is a regression equation with dependent variable that presented the membership of a group. Determination analysis can be used to assess the relationships between variables in different populations or samples. If the higher R2 it will be the better prediction of membership in the group.

R squre adjusted by 0.688 or equal to 68.8%, the value is 68.8% informed that bank profitability can be explained by the exchange rate of the U.S. dollar to rupiah and inflation rate.