

THE INFLUENCE OF INSIDER AND OUTSIDER OWNERSHIP ON COMPANY PERFORMANCE

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ABSTRACT

This study aims to determine the effect of ownership structure, which is grouped into two, namely outsider and insider ownership, on company performance. This study was conducted on 366 companies listed on the Indonesia Stock Exchange (IDX) in 2023. Insider ownership is measured by family ownership and managerial ownership. While outsider ownership is measured using institutional ownership and public ownership. The control variables added to this study include: leverage, company size, and liquidity. The use of control variables is indicated to prevent biased calculation results. The theory used in this study is agency theory, which explains the relationship between owners (owners) and agents (managers). The implementation of this study lasted 1 year and was funded by internal funds from Semarang University. The analysis method used in this study is Partial Least Squares (PLS). The results of this study indicate that outsider and insider ownership have a significant influence on company performance.

Keywords: insider ownership, company performance, outsider ownership

INTRODUCTION

A company is considered successful if it delivers the expected return on investment for investors. One way to determine a company's performance is to analyze its profitability ratios to manage its profits. The capital market, which serves as a platform for capital seekers and investors to transact, relies heavily on information exchange. This information is crucial because it can influence investor decisions (Saragih & Tarwiyah, 2021). Performance measurement tools can explain what a company has achieved and what it plans to achieve. To determine the Company's profit from utilizing all its assets, a profitability ratio, proxied by Return on Assets (ROA), is used.

The various shareholders or owners within a company form an

ownership structure. Some researchers believe that company performance is determined by how the Company operates, which is influenced by its ownership structure. There are various types of ownership structures within companies, each with a distinct impact on company performance. Among the various ownership structures, there are family ownership, foreign ownership, and institutional ownership. Each ownership structure has a different strategy for running the Company. For example, family-owned companies have their own unique characteristics.

Family-owned companies generally involve the founder, directly or indirectly, in determining company policy by placing the founder in strategic positions in top

management. Another common occurrence in family-owned companies is nepotism. The family can select family members and assign them to top management positions, aiming to minimize information asymmetry within the Company and ensure that every decision is made with the family's approval. However, in this selection process, the family often neglects to consider their abilities or competencies. Furthermore, oversight of family agents is typically weak. Weak oversight of family agents can be detrimental to the Company, as these agents can exploit company resources for personal gain. Alternatively, the founder can pass on the Company to other family members. If a family member is unwilling to continue the business, the new owner can hire a professional to run the business. Family-owned companies perform better when the founder acts as a leader, rather than allowing subsequent generations to run the Company.

Unlike family-owned companies, foreign-owned companies have their own unique way of running their businesses. Foreign ownership generally brings better management systems, technology, and expertise, so foreign-owned companies tend to perform better. Foreign ownership is a party that cares about the investee's corporate governance system, as good corporate governance leads to better company performance.

Institutional ownership is a party capable of adequate supervision; the greater the

institutional ownership in the Company, the more efficiently supervision is carried out. Institutional ownership in the Company can be viewed from two perspectives: active and passive. The active perspective holds that institutional investors are directly involved in determining company policy and generally hold shares in the long term. In contrast, the passive perspective holds that institutional investors own shares in the short term and are primarily concerned with their portfolios. Each ownership structure has distinct motivations for running the Company; ultimately, each affects company performance in various ways. This study examines the effects of insider ownership, proxied by family ownership and managerial ownership, and outsider ownership, proxied by institutional ownership and public ownership, on financial performance, as measured by ROA and ROE.

Agency Theory

The theory used in this study is agency theory, which views shareholders as principals and management as agents. A principal is a shareholder or investor, while an agent is a manager who carries out management functions within the Company. Management is the party contracted by shareholders to provide the best services in their best interests. Therefore, management is given some decision-making power to improve shareholder welfare. On the other hand, managers also want to receive compensation in accordance with the contract. Thus, there are two distinct interests within the Company, each striving to

achieve and maintain the desired level of prosperity (Jensen & Meckling, 1976).

The concept of agency theory emerged when there was a separation between company ownership and management, namely between the company owner or shareholder and the party that manages the Company. The purpose of this separation is for the owner to obtain maximum profits at efficient costs in a company managed by professionals or agents. With this agency conflict, the Company must bear agency costs. Agency costs arise from shareholders' (principals') efforts to monitor management's (agents') actions. Agency costs are the costs incurred by the principal to supervise the agent (Jensen & Meckling, 1976). It is almost impossible for a company to have zero agency costs, ensuring that managers make optimal decisions from the perspective of shareholders, because of significant differences in interests between managers and shareholders.

Conflicts between principals and agents can be reduced by aligning their interests through managerial ownership (insider ownership). This allows management to own some of the Company's shares or to hold them simultaneously. Furthermore, several alternatives exist to reduce agency costs, including institutional share ownership. The granting of stock options is expected to address agency conflicts and improve company performance. Agency theory explains company performance, suggesting that companies with strong financial

performance are likely to increase profits and become a factor for investors considering investing in the Company.

Company performance

Company performance results from management activities. Parameters used to assess company performance can be derived from an approach that includes financial information from the Company's financial statements. Company performance is a comprehensive view of the Company's condition over a specific period of time, resulting from and reflecting the Company's operational activities in utilizing its resources (Galib & Muhammad, 2018). Furthermore, if the Company's performance increases, it can be seen in its intensive activities to generate and increase maximum profit. The resulting profit or gain will undoubtedly vary depending on the Company's size.

Financial performance is an achievement that a company has achieved in a specific period that describes a level of health in a company, as a result of the performance of various parts within a company that can be seen from the financial condition of a company in a specific period, namely related to the aspects of fund collection and distribution which are assessed based on indicators of capital adequacy, liquidity and profitability of the Company. Companies with good financial performance can be seen in the amount of profit they generate, which results in a high rate of return. The Company's ability to generate profitability is one of the

considerations for investors to invest their capital in the Company. One of the profitability ratios used to measure a company's ability to generate profit is Return On Equity (ROE). The Return On Equity (ROE) ratio shows how effectively equity contributes to net profit. In other words, ROE measures the net profit generated per rupiah of funds invested in total equity or capital. The Return On Equity (ROE) ratio can be calculated by dividing net profit by total equity or capital.

Ownership Structure

Ownership structure refers to the institution or Company that holds the most significant shareholding in a company. The ownership structure is also believed to influence the Company's operations, which, in turn, can affect its performance. Ownership structure represents the separation between company owners and managers. Furthermore, according to agency theory, the ownership structure is a mechanism for mitigating conflicts of interest between shareholders and managers. The ownership structure within a company is a crucial factor in determining its performance, which, in turn, influences its value. Two factors to consider regarding ownership are the concentration of outside ownership and the concentration of manager ownership.

The concentration of outsider ownership in this study consists of foreign ownership, institutional ownership, and public ownership. Meanwhile, insider ownership consists of family ownership and managerial ownership.

Structure, Ownership, and

Company Performance

Based on the theory, agency, and results study previously, as well as an explanation about the structure, ownership, and performance of the finance company, a hypothesis is built on this study, among others:

H1: Influence the Ownership family on the performance of the Company

H2: Influence the managerial ownership on the Company's performance

H3: Influence the ownership institutions on the performance of the Company

H4: Influence public ownership of the performance company

METHOD

This study incorporates three main categories of variables: dependent, independent, and control variables. The dependent variables in this research are represented by two financial performance metrics, namely Return on Assets (ROA) and Return on Equity (ROE).

The independent variables focus on the company's ownership structure, which is divided into four distinct types. First, family ownership refers to the percentage of shares held by a family within the company's share structure, as conceptualized by Widyastuti and Mulawarman (2019). Second, institutional ownership denotes large-scale stock investments held by external institutions, such as other companies, pension funds, and mutual funds, according to Kartikasari, Dewi, and Sulton (2022). Third, managerial ownership is identified by the percentage of company shares held by internal parties who actively participate in operational decision-making, as stated by Kartikasari, Dewi,

and Sulton (2022). Fourth, public ownership encompasses the company shares owned by the general public in Indonesia, based on Latifah and Widiatmoko (2022).

To ensure analytical consistency, this study also utilizes three control variables. The first control variable is leverage, which measures the extent to which a company's capital can cover its liabilities and assesses how effectively activities generate revenue from those liabilities; according to Saragih and Tarwiyah (2021), it reflects the firm's capacity to meet long-term debt obligations using its own capital or stakeholder funds. The second control variable is company size, a measurement scale based on total assets that indicates the scale of the firm; Sugiono and Christiawan (2013) note that larger companies enjoy greater access to external funding sources, making loans easier to obtain and granting them a better opportunity to compete or survive in the industry.

The final control variable is liquidity, defined by Sugiono and Christiawan (2013) as a company's ability to fulfill its financial obligations promptly, whereby a firm that meets its commitments on time is deemed liquid

RESULT

Research Sample

The population of this study was all 903 companies listed on the Indonesia Stock Exchange in 2023, based on press release details dated December 29, 2023 (Press Release, 2023). The research sample was obtained using a purposive sampling method, with the following criteria:

- The Company is listed on the Indonesia Stock Exchange in 2023.
- Companies with financial reports using the Rupiah currency.
- The Company has financial report data that is in accordance with the research variables.
- Not a banking and financial company

Descriptive Statistics

Descriptive statistics explanation

	Count	Mean	Minimum	Maximum	Standard Deviation
Y	366	13.13275956	0	1007	73.21749095
X1	366	2.736530055	-491,0692445	79.05733247	37.80587466
X2	366	8.417322404	-491,0692445	91.16012197	41.3661873
X3	366	10.75510929	-460,3492445	120.7529322	42.0798617
X4	366	23.58448087	-470,5892445	87.17657085	39.06683624
X5	366	87.40986339	-771.4178664	4623,4327	298.4593601
X6	366	1.27786E+11	191.0915399	4.60514E+13	2.40718E+12
X7	366	235.4356557	-268,0692445	6384,818731	508.6992328

Hypothesis Testing

Measurement model analysis is implemented by assessing the model's goodness-of-fit, namely, using the Do-Testing reliability and validity tools to measure research. There are several criteria for measuring the model, including :

1. Test Validity

a. Convergent Validity

From the Outer Loadings table above, we can see that all variables have values greater than 0.7, so we can conclude that all variables are worthy of entering the model. With this matter, the proof of each construct indicator is

already in accordance with the requirements for convergent validity and is declared valid and Good. Convergent validity of the measurement model can be assessed by the correlation between item/instrument scores and their

construction (outer loadings), with the criterion loading factor value for each instrument > 0.7 . The following output results of the relationship between indicators and summarized constructs in Table 4.2 are as follows:

Table. Outer loadings

	X1	X2	X3	X4	X5	X6	X7	Y
X1	1,000							
X2		1,000						
X3			1,000					
X4				1,000				
X5					1,000			
X6						1,000		
X7							1,000	
Y								1,000

b. Average Variance Extracted (AVE)

Average Variance Extracted (AVE), i.e., testing for the average communality of each variable in the reflective model. The AVE value must

be above 0.50, indicating that at least one factor explains at least half of the variance for each indicator. The output results of the AVE value can be observed in the Table, as follows:

Table. Average Variance Extracted (AVE) Value

	Composite Reliability	Average Variance Extracted (AVE)
X1	1,000	1,000
X2	1,000	1,000
X3	1,000	1,000
X4	1,000	1,000
X5	1,000	1,000
X6	1,000	1,000
X7	1,000	1,000
y	1,000	1,000

In the Table, we can see that each construct has an AVE above 0.5, indicating good reliability.

c. Discriminant Validity

Discriminant validity is a method for evaluating how distinct a construct is from others, which is assessed by comparing the AVE of the second construct with the square of

the correlation between the two constructs. When a variable is seen, the indicators have high validity and discriminant validity, meaning the variable is unique compared to other variables. The discriminant validity value can be seen through the summarized cross-loadings in the Table, as follows:

Table. Cross Loadings

	X1	X2	X3	X4	X5	X6	X7	Y
X1	1.000	0.828	0.830	0.878	0.109	-0.004	0.062	-0.949
X2	0.828	1.000	0.712	0.799	0.120	-0.011	0.040	-0.888
X3	0.830	0.712	1.000	0.781	0.081	0.071	0.117	-0.772
X4	0.878	0.799	0.781	1.000	0.116	0.013	0.093	-0.921
X5	0.109	0.120	0.081	0.116	1.000	0.003	0.020	-0.126
X6	-0.004	-0.011	0.071	0.013	0.003	1.000	0.082	-0.007
X7	0.062	0.040	0.117	0.093	0.020	0.082	1.000	-0.048
Y	-0.949	-0.888	-0.772	-0.921	-0.126	-0.007	-0.048	1.000

Based on the results, the cross-loadings in the Table indicate that each indicator differs from indicators in other constructs, with higher loadings within its own construct. Therefore, it can be said that the instruments used in the study fulfil the criteria for validity and discriminant validity. Furthermore, is the test purposeful

multicollinearity ? What are formative indicators? happen multicollinearity with the method; see the VIF value. A VIF value between 5 and 10 can indicate multicollinearity in the indicator. Table collinearity statistics are summarized in the Table, as follows:

Table. Collinearity Statistics

	VIF
X1	1,000
X2	1,000
X3	1,000
X4	1,000
X5	1,000
X6	1,000
X7	1,000
Y	1,000

Based on the Table, the VIF value is 1.000, which is not enough to indicate multicollinearity.

2. Test Reliability

Composite reliability is a commonly used indicator of a

construct's latent variables' reliability. Constructs are considered reliable and reasonable if their composite reliability exceeds 0.7. The output results of the value data processing composite reliability are shown in the Table, as follows:

Table.Composite Reliability

	Composite Reliability	Average Variance Extracted (AVE)
X1	1.000	1.000
X2	1.000	1.000
X3	1.000	1.000
X4	1.000	1.000
X5	1.000	1.000
X6	1.000	1.000
X7	1.000	1.000
y	1.000	1.000

The Table shows that the composite reliability values for each construct exceed 0.7. Then can conclude that each construct is already in accordance with the condition testing reliability.

Structural Model Analysis

Structural model in PLS is evaluated using R2 for construct-dependent, whereas testing significance between constructs uses the marker path coefficient or the t-statistic for each path.

1. Analysis variant (R Square)

Table. R Square Adjusted

	R Square	R Square Adjusted
Y	0,959	0,958

From the Table above, with X1 to X7 in the model, the model explains 95.8% of the variance, with the remaining 4.2% explained by other variables not included in the model.

2. Testing Hypothesis

Test hypotheses can be seen through the P-values obtained from bootstrapping testing in the path coefficient table. Bootstrapping is a

Testing this is used to show the correlation between the construct's latent variables. Structural model testing is evident in the observed adjusted R-square value. The adjusted R-squared value is used to determine the extent of exogeneity. Give influence and can explain endogenous variables. The adjusted R-squared is close to 1, indicating that the exogenous variable explains both endogenous variables. The results of the Adjusted R Square of the study are shown in the Table, as follows:

nonparametric procedure that can be implemented to test whether coefficients, such as outer weights, outer loadings, and significant path coefficients, have estimates with standard errors for the forecast. The path coefficient table can be seen in the Table, and the bootstrapping output can be seen in the Figure as follows:

Table. Path Coefficient

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
X1 -> Y	-0,551	-0,545	0,084	6,572	0,000
X2 -> Y	-0,255	-0,270	0,046	5,569	0,000
X3 -> Y	0,127	0,141	0,045	2,853	0,005
X4 -> Y	-0,333	-0,328	0,044	7,629	0,000
X5 -> Y	-0,007	-0,011	0,016	0,453	0,651
X6 -> Y	-0,018	-0,013	0,026	0,697	0,486
X7 -> Y	0,015	0,012	0,012	1,219	0,223

Information

Y = Performance Finance (ROA)

X1 = Ownership family (insider ownership)

X2 = Ownership Institution (Outsider ownership)

X3 = Ownership Managerial (Insider ownership)

X4 = Public ownership (Outsider ownership)

X5 = Leverage (DER) (variable control)

X6 = Liquidity (CR) (control variable)

X7 = Company Size (Ln Total Assets) (control variable)

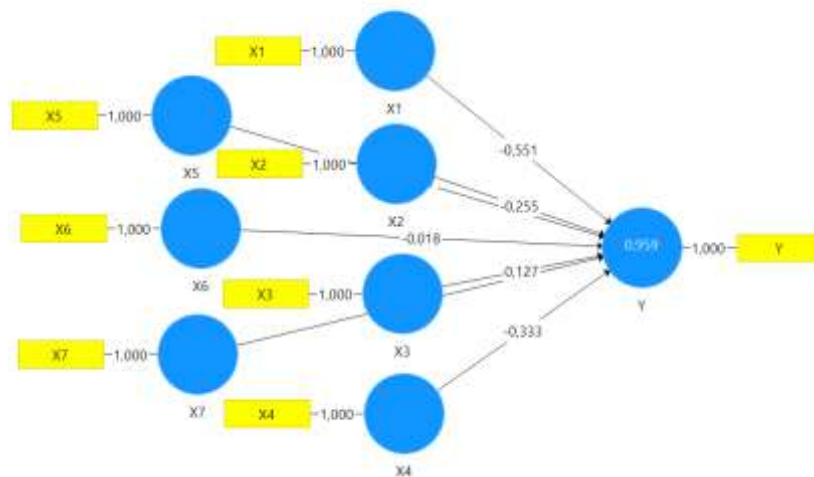


Figure. Bootstrapping

Based on the Table and Figure, all independent variables in the study (X1-X4) affect variable Y, whereas the control variables (X5-X7) do not have a significant effect on it.

DISCUSSION

1. The Influence of Insider Ownership on Company Performance

Insider ownership in the study was measured using 2 variables: family ownership (X1) and management ownership (X3). The output results in Table 4.8 show that ownership family

(X1) and ownership managerial (X3) have p-values of 0.000 and 0.005, respectively, which are well below 0.05, indicating that insider ownership influences company performance. This matter shows that insider ownership plays a sufficiently significant role in maximizing the Company's benefits at others' expense. This matter is also supported by research showing that insider ownership is measured by managerial ownership and managerial influence, both of which are positively

and significantly associated with company performance.

2. The Influence of Outsider Ownership on Company Performance

Outsider ownership in the study was measured using institutional ownership (X2) and public ownership (X4). The results of the output study in Table 4.8 show that the p-values for ownership institution (X2) and public ownership (X4) are 0.000. p-value on both variables. That is far below 0.05, which means that ownership institutions and public ownership have a significant influence on company performance. The presence of ownership institutions can reduce conflicts of interest in the Company. A party institution is a professional party with greater capabilities, effective in controlling something, and with a control behavior manager. Where, thing. This will be different if the Company is controlled by the owner, myself, who tends to prioritize interests and benefits first. With institutional ownership of the party, this can serve as a bridge between the party owner and management. The existence of ownership by parties outside management or institutional parties can supervise behavior and performance management, as well as influence decisions taken by management. This matter arises because the party's institutional holder holds a majority shareholding with sufficient ownership, which is significant to the Company (Jensen & Meckling, 1976). Results study. This is also consistent with the study's results (Zandi, Singh, Mohamad, & Ehsanullah, 2020), which show that ownership structure (outsider and

insider) increases company performance among 200 Malaysian companies listed on the Malaysia Stock Exchange.

CONCLUSION

Based on the data analysis and discussion in the previous chapter, this study shows that ownership structure influences company performance. The research model used has excellent explanatory power, as demonstrated by an adjusted R-square value of 95.8%. This means that the independent variables explain 95.8% of the variation in company performance, while factors outside the research model influence the remaining 4.2%. Hypothesis testing results also indicate that insider and outsider ownership influence company performance. Insider ownership, or share ownership by internal parties, helps align management and shareholder interests, thereby minimizing agency conflicts. Meanwhile, outsider ownership contributes by overseeing management, thereby encouraging better corporate governance. Therefore, the appropriate composition of ownership structure is a crucial factor in sustainably improving company performance.

The limitations of this study include: it was conducted on a one-year sample, namely 2023, with the assumption that the Company's ownership did not change significantly in the adjacent years (time-series research). None of the control variables in this study significantly affected the Company's performance. This indicates that the control variables did not have a significant impact on the results.

Based on these limitations, the suggestions for further research include

conducting additional tests with sufficiently large samples and selecting more appropriate control variables that play a significant role in influencing the dependent variable. Limitations describe aspects that are within the scope of the research but, due to specific methodological or procedural

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