FINANCIAL PERFORMANCE AND THEIR EFFECTS ON BASIC MATERIAL COMPANIES IN INDONESIA

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Abstract
In the current situation of the globalization era, business competition is becoming increasingly fierce, which makes every firm motivated to take advantage of its potential. This study aims to explain the effect of Firm Age, Institutional Ownership, and Managerial Ownership on the firm's Financial Performance. The sample used in this study is basic material sector companies listed on the Indonesia Stock Exchange (IDX) in 2017-2021. The type of data used is secondary data obtained from www.idx.co.id. Samples were taken by purposive sampling method. The method used to analyze this research is panel data analysis method. Firm Age has no effect on the firm's Financial Performance. Institutional Ownership and Managerial Ownership affect the firm's Financial Performance.

Keywords: Firm Age, Institutional Ownership, Managerial Ownership, Financial Performance.

1. Introduction
In the current situation of the globalization era, business competition is becoming increasingly fierce, which makes every firm motivated to take advantage of its potential. Competition between companies, both from the same field or from different fields, cannot be avoided. Now is the time for companies to take a step forward so that competition in this globalization era can be predicted. Consumers and investors are the most important aspects of an investment custodial firm, and if consumers are well served, then consumers will continue to grow and investors will put more money into it. A firm must have a solid track record to gain the trust of investors to invest. Cooperation between management and shareholders is needed to increase firm profits and thereby maintain its financial performance (Nilayanti & Suaryana, 2019).

Reporting from investment.kontan.co.id, Kiwoom Sekuritas head of research, Sukarno Alatas, projects that throughout 2021 the sales volume of industrial metals will potentially be higher than in 2020. Positive sentiment comes from demand, which has the potential to be higher because vaccine distribution has expanded globally. As a result, industrial activity is also running again so that sales volume can increase. This is not in line with the graph below:
Based on figure 1 of the firm's financial performance chart, there are 6 companies in the Basic Material sector using the Tobin's Q calculation ratio from 2017 to 2021. Tobin's Q is an indicator to measure firm performance from a market perspective. In this case the higher the Tobin's Q value indicates that the firm has good growth prospects and the market value has increased.

The basic material sector is a firm that sells products and services used by other industries as raw materials to produce final products. The basic material sector is the largest sector for stock investment. The basic material sector can be said to be one of the important sectors of a country because it is the corporate sector that provides the raw materials needed by companies in other sectors. If the price of products produced by companies in the basic material sector increases, it will affect the value of production costs in other industries. This is what makes the basic material sector considered a promising investment.

One of the factors that affect financial performance is the age of the firm. In theory, the age of the firm will improve the firm's financial performance. The age of a firm shows the firm's ability to leverage the firm's past experience. These companies usually have a good reputation so they can earn high profit margins when selling goods (Endaryono, Nurhayati, and Setiawati, 2019). According to research from (Melania & Tjahjono, 2022) and (Sitanggang, 2021) says that the older the firm means it does not guarantee that it will always go according to plan in generating profits. The age of the firm will show a lot of experience, but showing a lot of experience does not make the firm generate maximum profits. An old firm will always maintain its firm even though the profits are small.

Institutional ownership is a form of share ownership from other institutions or other institutions such as banks, insurance companies, investment companies, and other institutional ownership. The objective of institutional ownership is to oversee management by carrying out an effective monitoring process. Institutional investors can exercise proper checks and balances on the companies they invest in. Institutional investors are not active participants in management, but they have the right to influence monitoring managers through their voting rights. The role of institutional ownership is expected to help agency conflicts and improve the performance of a firm. The results of

![Figure 1. Firm Financial Performance Graph](image-url)
research from (Nilayanti & Suaryana, 2019) and (Novitasari, Endiana, & Arizona, 2020) show that the institutional ownership structure has a positive effect on financial performance. However, in research (Antari, Widnyana, & Gunadi, 2022) institutional ownership has a negative effect on financial performance. The results of this study are due to the fact that the majority of institutional investors have a tendency to compromise or side with management and ignore the interests of minority shareholders so that when institutional ownership increases, the firm's performance will decrease.

Managerial ownership will encourage firm management, because management also acts as an owner, so that every path or direction of firm goals is better understood. By holding concurrent positions as the owner of the firm, conflicts of interest can be avoided, thereby aligning the firm's goals with those of its management. This harmonious and balanced relationship will definitely have a positive effect on productivity. In research (Setyaningsih & Afsa, 2022) shows that managerial ownership affects the firm's financial performance. This result can be interpreted as the higher the amount of managerial ownership, the better the firm's financial performance and vice versa. Then, managerial ownership results in a positive direction of influence on the firm's financial performance. However, in research (Antari, Widnyana, & Gunadi, 2022) Managerial Ownership has no effect on financial performance. This is because the percentage of shares owned by managers is very small. The low share owned by managers resulted in management not feeling part of owning the firm because not all profits could be enjoyed and the consequences of management decisions were also not felt by management, so that the shares owned by managers had not been effectively used as initiatives in improving performance.

2. Theoretical Background

Agency Theory

According to (Sochib, 2018) explains that management is entrusted by investors as firm owners to manage the firm and management is also given the authority to make decisions, thus causing an agency relationship called agency theory. Shareholders and management have different personal goals, resulting in a conflict of interest. The firm providing compensation for its performance is one of management's conflicts of interest. Meanwhile, the return on profits from investments invested in the firm is also desired by shareholders (Zakia et al., 2019).

![Figure 2. Framework](image-url)
Effect of Firm Age on Firm Financial Performance

Firm age is a measuring tool to determine the duration of the firm's influence in operations on its financial performance. The age of the firm can show the consistency of the firm in competing and taking advantage of business opportunities in an economy. In theory, the older the firm, the greater the firm's ability to improve its business because it has more experience in doing business. The longevity of the firm being established and operating can create opportunities for companies to improve their financial performance to achieve what is expected. The longer the firm has existed, the more experiences the firm will face. The amount of firm experience will make the firm stronger and the firm will continue to maintain its financial performance so that it continues to increase. In the research results of Yester, Widiasmara, Devi (2020), Apriliani, Dewayanto (2018), Sari (2019), Hayati, and Istiyandra (2018) which state that firm age has a positive effect on financial performance.

H1: Firm Age Affects Firm Financial Performance

Effect of Institutional Ownership on Firm Financial Performance

According to Jensen and Meckling (1976) managerial ownership and institutional ownership are the two main corporate governance mechanisms that help control agency problems (agency conflict). In agency theory it is said that the existence of institutional ownership in a firm will create a higher monitoring (supervision) mechanism so that managers will be more careful in managing firm finances (Nilayanti & Suaryana, 2019). The size of institutional ownership greatly influences management performance, namely by providing stronger motivation to increase firm activities so that it has an effect on profits earned and can improve performance. According to agency theory, institutional ownership affects financial performance. If in a firm there are shares owned by institutions, management will act in accordance with applicable rules, institutional ownership will do this because, supervision of the workings of firm management in operating the firm so that management will feel under pressure and try to do their best to improve firm performance. (Yusdianto and Ramadhoni, 2022) in their research stated that institutional ownership has a positive effect on financial performance.

H2: Institutional Ownership Affects Firm Financial Performance

The Effect of Managerial Ownership on Firm Financial Performance

Conflict of interest in the firm between shareholders and firm management. Effect on the method that will be applied by a firm, so that the interests of shareholders can be protected. Increasing the proportion of managerial share ownership can be used as an effective method so that conflicts between managers and other shareholders can be reduced directly. The statement states that the greater the ownership of the firm's management, the more active the management tends to perform better for the firm because the management itself holds the firm's shares so that the management will try to improve the firm's performance. Based on research (Rivai, Putra, & Fadrul, 2021) shows that Managerial Ownership has an influence on financial performance so it can be interpreted that Managerial Ownership has an effect on the firm's financial performance.

H3: Managerial Ownership of the firm affects the firm's financial performance
Effect of Firm Age, Institutional Ownership, Managerial Ownership on Firm Financial Performance

Based on research (Yester, Widiasmara, & Devi, 2020) shows that firm age has an effect on financial performance. The effect of the age of the firm on financial performance because of the length of time the firm has been established and operating, the firm's chances are high to improve performance with the strategy implemented, besides that the longer the firm's age, the better its financial performance. In research (Sutrisno & Ridwan, 2022) that institutional ownership has a positive effect on firm financial performance, institutional ownership can have a good effect on the financial management of firm finances because it can prevent conflicts between managers and shareholders so that the flow of money issued by the firm can be monitored by both stakeholders interest. With the existence of institutional parties, large costs can be used properly according to firm needs.

The results of the study (Kusumardana, Titisari, & Rois, 2022) state that managerial ownership has an effect on financial performance. This is because managerial share ownership can align the interests of shareholders with managers, because managers also directly feel the benefits of decisions that have been taken and managers bear the risk if there are losses that arise as a consequence of making wrong decisions. The existence of managerial ownership is so that top managers can be more consistent in running the firm so as to create alignment of interests between management and shareholders and can improve the performance of a firm.

H4: Firm Age, Institutional Ownership and Managerial Ownership affect the Firm's Financial Performance

3. Methods

Population And Sample
The research object used is Basic Material sector companies listed on the Indonesia Stock Exchange in 2017–2021 using a purposive sampling method. The initial research sample consisted of 91 companies, but after being selected based on the criteria, a final sample of 23 companies was obtained with 5 years of observation so that 115 observational data were obtained.

Data collection technique
The data in this study were collected using secondary data. The data used refers to information collected from existing sources, through intermediary media, namely through the firm's official website and the IDX website (www.idx.co.id). Data collection is done by tracing and recording auxiliary data that has been obtained. The sample firm's annual financial report data source comes from the IDX website. Other data sources come from reading sources such as books, journals and data from the internet.

Data analysis
The data analysis technique in this study is using panel data (data pool). Because in this study using time series data types and also cross section. Data was processed using Microsoft Excel and Eviews 12 software.
Table 1. Variable Operationalization

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>Indicator</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance (Y)</td>
<td>Financial performance is the firm's ability to manage and control its resources.</td>
<td>Tobin's $Q = \frac{MVE}{TA} + D$</td>
<td>Ratio</td>
</tr>
<tr>
<td>Firm age (X1)</td>
<td>Firm age is the length of time a firm has been established.</td>
<td>$Age = Age_{th_t} - Age_{th_{n}}$</td>
<td>Nominal</td>
</tr>
<tr>
<td>Institutional ownership (X2)</td>
<td>Institutional ownership is share ownership by a financial institution, financial institution, legal entity, foreign institution, trust fund and other institutions.</td>
<td>Institutional ownership = Number of Institutional Shares / Total Outstanding Shares</td>
<td>Ratio</td>
</tr>
<tr>
<td>Managerial ownership (X3)</td>
<td>Managerial ownership is share ownership owned by firm management.</td>
<td>Managerial ownership = Number of Managerial Shares / Total Outstanding Shares</td>
<td>Ratio</td>
</tr>
</tbody>
</table>

Source: processed data

Operational variables are interpretations of theoretical understanding of variables so that researchers can observe and examine these variables to then become scientific research. According to Sugiyono (2018), research variables are anything in any form that is identified by a researcher to obtain information about it and then draw conclusions. In accordance with the research title chosen by the researcher, namely the Effect of Firm Age, Institutional Ownership, and Managerial Ownership on Firm Financial Performance (Empirical studies on Basic Material sector companies listed on the Indonesia Stock Exchange in 2017-2021), in this study the variable studied was performance finance.

Specifically, this financial performance is focused on the financial performance of companies which are companies in the Basic Material sector. The firm's financial performance is measured through 3 variables that act as the dependent variable, namely Firm Age, Institutional Ownership, and Managerial Ownership. What functions as an independent variable is the firm's financial performance for the 2017-2021 time period.
4. Results dan Discussion

Table 2. Descriptive Statistics Test

<table>
<thead>
<tr>
<th>Source: processed data</th>
</tr>
</thead>
</table>

Table 2 shows the results of the descriptive statistical test on the Tobins variable (Y) showing an average value of 0.455460, a maximum value of 0.840032, a minimum value of 0.081305, and a standard deviation of 0.202629.

The results of the descriptive statistical test on the AGE variable (X1) show an average value of 3.629668, a maximum value of 4.248495, a minimum value of 3.091042, and a standard deviation of 0.261202.

The results of the descriptive statistical test on the KI variable (X2) show an average value of 0.606289, a maximum value of 0.940115, a minimum value of 0.000650, and a standard deviation of 0.20131.

The results of the descriptive statistical test on the KM variable (X3) show an average value of 0.134345, a maximum value of 0.572603, a minimum value of 2.500007, and a standard deviation of 0.148552.

Table 3. Chow Test Results

<table>
<thead>
<tr>
<th>No</th>
<th>Metode</th>
<th>Pengujian</th>
<th>Hasil</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Chow Test</td>
<td>CEM vs FEM</td>
<td>FEM</td>
</tr>
<tr>
<td>2</td>
<td>Hausman Test</td>
<td>FEM vs REM</td>
<td>FEM</td>
</tr>
<tr>
<td>3</td>
<td>Lagrange Multiplier Test</td>
<td>CEM vs REM</td>
<td>REM</td>
</tr>
</tbody>
</table>

From the results of the three tests that have been carried out, it can be concluded that the panel data regression models that will be used in conducting hypothesis testing are the Fixed Effect Model (FEM).
Table 4. Multicollinearity Test Results

<table>
<thead>
<tr>
<th></th>
<th>AGE</th>
<th>KI</th>
<th>KM</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGE</td>
<td>1.000000</td>
<td>-0.318084</td>
<td>-0.104429</td>
</tr>
<tr>
<td>KI</td>
<td>-0.318084</td>
<td>1.000000</td>
<td>-0.371079</td>
</tr>
<tr>
<td>KM</td>
<td>-0.104429</td>
<td>-0.371079</td>
<td>1.000000</td>
</tr>
</tbody>
</table>

Source: processed data

Based on table 4, the results of the multicollinearity test show that:

a. The correlation coefficient between AGE and KI is -0.318084 < 0.9
b. The correlation coefficient between AGE and KM is -0.104429 < 0.9
c. The correlation coefficient between KI and KM is -0.371079 < 0.9

So it can be concluded that the data is free from multicollinearity symptoms.

Table 5. Heteroscedasticity Test Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.242259</td>
<td>0.265138</td>
<td>0.913710</td>
<td>0.3645</td>
</tr>
<tr>
<td>AGE</td>
<td>-0.038544</td>
<td>0.068526</td>
<td>-0.562473</td>
<td>0.5759</td>
</tr>
<tr>
<td>KI</td>
<td>-0.070439</td>
<td>0.065072</td>
<td>-1.082473</td>
<td>0.2834</td>
</tr>
<tr>
<td>KM</td>
<td>-0.258210</td>
<td>0.147576</td>
<td>-1.749673</td>
<td>0.0853</td>
</tr>
</tbody>
</table>

Source: processed data

Based on table 5, the Glejser test results show that:

a. Prob Value AGE of 0.5759 > 0.05.
b. Prob Value KI of 0.2834 > 0.05.
c. Prob Value KM of 0.0853 > 0.05.

So it can be concluded that there is no heteroscedasticity problem in the regression model.

Table 6. Simultaneous Significance Test Results

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Root MSE</td>
<td>0.039436</td>
<td>R-squared</td>
<td>0.961757</td>
</tr>
<tr>
<td>Mean depen</td>
<td>0.455460</td>
<td>Adjusted R-squared</td>
<td>0.950898</td>
</tr>
<tr>
<td>S.D. depen</td>
<td>0.202629</td>
<td>S.E. of regression</td>
<td>0.044900</td>
</tr>
<tr>
<td>Akaike</td>
<td>-3.171109</td>
<td>Sum squared resid</td>
<td>0.163300</td>
</tr>
<tr>
<td>Schwarz</td>
<td>-2.564490</td>
<td>Log likelihood</td>
<td>190.4832</td>
</tr>
<tr>
<td>Hannan-Quinn</td>
<td>-2.925295</td>
<td>F-statistic</td>
<td>88.56750</td>
</tr>
<tr>
<td>Durbin-Watson</td>
<td>1.601497</td>
<td>Prob(F-statistic)</td>
<td>0.000000</td>
</tr>
</tbody>
</table>

Source: processed data
Based on Table 6, it is known that the Prob(F-statistic) value is 0.0000 and the value. Because the Prob(F-statistic) value is less than 0.005 according to the basis of decision making in the F Test, it can be concluded that the hypothesis is accepted, so that firm age, institutional ownership and managerial ownership simultaneously affect the Firm’s Financial Performance.

Table 7. Partial Test Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>1.611779</td>
<td>0.429656</td>
<td>3.751328</td>
<td>0.0003</td>
</tr>
<tr>
<td>AGE</td>
<td>-0.151285</td>
<td>0.111012</td>
<td>-1.362785</td>
<td>0.1767</td>
</tr>
<tr>
<td>KI</td>
<td>-0.822267</td>
<td>0.122337</td>
<td>-6.721309</td>
<td>0.0000</td>
</tr>
<tr>
<td>KM</td>
<td>-0.808897</td>
<td>0.299926</td>
<td>-2.696986</td>
<td>0.0085</td>
</tr>
</tbody>
</table>

Source : processed data

Based on table 7, the results of the t test show that:

a. Prob Value AGE is 0.1767 > 0.05, so it can be concluded that the firm age variable (X1) has no effect on the financial performance variable (Y).

b. Prob Value KI is 0.0000 <0.05, so it can be concluded that the institutional ownership variable (X2) has an effect on the financial performance variable (Y).

c. Prob Value KM of 0.0085 <0.05, so it can be concluded that the managerial ownership variable (X3) has an effect on the financial performance variable (Y).

The Effect of Firm Age on Firm Financial Performance

Based on the results of hypothesis testing that has been done shows that the age of the firm has no effect on the firm's financial performance. This is evidenced by the results of the t test in table 7, where the probability value of the firm's age is 0.1767 greater than the alpha value used, which is 0.05. An older firm means it can't guarantee it will always turn a profit as planned. The age of the firm shows a lot of experience, but showing a lot of experience does not make the firm maximize profits. Old companies, even with slim margins, will continue to run.

The Effect of Institutional Ownership on Firm Financial Performance

Based on the results of hypothesis testing that has been done, it shows that institutional ownership affects the firm's financial performance. This is evidenced by the results of the t test in table 7, where the probability value of institutional ownership is 0.0000 which is smaller than the alpha value used, which is 0.05. Institutional ownership will improve financial performance because if the firm's ownership structure is owned by an institution it will encourage an increase in more optimal supervision of management. Increasing institutional share ownership in the shareholder structure will be able to become an effective monitoring mechanism in every decision made by managers so that management will be more careful in implementing financial performance. According to
the perspective of agency theory, the existence of institutional ownership is able to increase the supervisory system stronger and improve firm performance. These conditions facilitate more effective and stronger oversight because of institutional professionalism and efficient corporate appraisal.

**The Effect of Managerial Ownership on Firm Financial Performance**

Based on the results of hypothesis testing that has been done, it shows that managerial ownership affects the firm's financial performance. This is evidenced by the results of the t test in table 6, where the probability value of managerial ownership is 0.0085 which is smaller than the alpha value used, which is 0.05. The higher the number of shares owned by managers will motivate managers to improve their performance in order to obtain higher profits with better firm financial performance. This result can be interpreted as the higher the amount of managerial ownership, the better the firm's financial performance and vice versa. The agency theory explains that managerial ownership will encourage firm management, because management also acts as an owner, so that every path or direction of the firm's goals is better understood. By holding concurrent positions as the owner of the firm, conflicts of interest can be avoided, thereby aligning the firm's goals with those of its management. This harmonious and balanced relationship will definitely have a positive effect on productivity.

**The Effect of Firm Age, Institutional Ownership, and Managerial Ownership on Firm Financial Performance**

Based on the results of hypothesis testing that has been done, it shows that firm age, institutional ownership and managerial ownership have a simultaneous effect on the firm's financial performance. This is evidenced by the results of the moderation regression analysis in table 6, where the prob(f-statistic) value is 0.0000 which is smaller than the alpha value used, which is 0.05. Based on the table of test results for the coefficient of determination, it shows that the R-squared value of 0.9617 is close to 1, so it can be concluded that the variable firm age, institutional ownership and managerial ownership can explain the firm's financial performance by 96.1%, while the remaining is 3.83 explained by other variables not examined in this study. The results of this coefficient of determination can support the simultaneous influence of firm age, institutional ownership, and managerial ownership on the firm's financial performance.

5. **Conclusion**

Following are the conclusions from the results of the analysis and discussion that have been described previously:

a. Firm Age has no effect on the firm's financial performance in basic material sector companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period.

b. Institutional ownership affects the firm's financial performance in basic material sector companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period.

c. Managerial Ownership affects the firm's financial performance in basic material sector companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period.
d. Firm Age, Institutional Ownership, and Managerial Ownership simultaneously influence the financial performance of basic material sector companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period.

Research Limitations
The limitation of the research is that the research only conducts research on basic material sector companies listed on the Indonesia Stock Exchange (IDX). Of the 91 populations, only 21 companies met each of the research sample criteria. The study only uses a 5 year period and there are irregular data so it is difficult to do the test.

Suggestion
Based on the results of the research and the discussion and limitations of the research conducted by the researchers, the suggestions that the researchers can give are as follows:

1. For further researchers
   - So that the data processed is more diverse, it is hoped that it can include a sample of companies that are not limited to one sector or sub-sector so that the data processed is more diverse and also uses proxies or other formulas in measuring research variables. In addition, it is expected to increase the period or year of observation and include additional variables that have a stronger effect on the firm's financial success. As well as to select a sector that has no broken sectors

2. For companies
   - It is expected that they should recruit a board of directors as well as employees who are experts in their field so that the integrity of financial statements can be achieved and meet the needs of investors and other users of financial statements.

3. For investors
   - It is hoped that they will continue to collect all information and references related to the condition of the firm that will be used as a place to invest. In this case it is important to do so that the risks arising from the investment can be minimized and the profits obtained can be optimized.

References


