**A study of Firm Size, Growth, Capital Structure, and Insider Ownership toward Financial Performance**

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**Abstract**

This research aims to examine the effect of firm size, growth, capital structure and insider ownership to financial performance of companies listed in the Indonesia Stock Exchange. The population is all companies listed on the Indonesia Stock Exchange with the research period of 2009 – 2011. Sample used is purposive sampling method amount to 66 companies. The method of analysis used in this study is by using statistical analysis and multiple linear regression analysis.

The results showed that firm size and insider ownership does not affect the financial performance as measured by the proxy return on assets (ROA). In the other side, growth and capital structure has positive influence on financial performance as measured by the proxy return on assets (ROA) the resulting for manufacturing period from 2009 to 2011. This research also shows that the financial crisis did not give negative effect to financial performance of the company, resulting from the viewed of growth and capital structure.

**Keywords**: Firm Size, Growth, Capital Structure, Insider Ownership, Financial Performance

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**Introduction**

The world financial crisis triggered by the Subprime Mortgage case in the United States in 2007, in a row led to a domino effect on the solvency and liquidity of financial institutions in the country, which led to the bankruptcy of hundreds of banks, securities firms, mutual funds, pensions and insurance. The crisis then spread to parts of Asia, especially countries such as Japan, Korea, China, Singapore, Hong Kong, Malaysia, Thailand, including Indonesia, which happened to have long-time letters beharga these companies. This can be seen from the collapse of the Jakarta Composite Stock Price Index (IHSG) which is significant up to 11% up to suspended trading on the Indonesia Stock Exchange on Wednesday 8th October 2008 for 3 days to prevent further downturn due to negative senti The impact of the financial crisis is clearly visible in the rupiah exchange rate weakening against the US dollar even reached RP 10.000 / USD in the second week of October 2008. This is more due to the outflow of foreign capital due to excessive panic to the global financial crisis (http: // rutacs .wordpress.com). Similar impacts also occur on inflation. Due to the weakening of the Rupiah against USD, the price of goods is also affected to rise, as Indonesia still imports many needs including wheat flour and soybeans.

This global financial crisis will surely greatly affect Indonesia's exports to export destination countries. During the last 5 years, Indonesia's exports to America are ranked 2nd after Japan with a range of 12% - 15% each (http://rutacs.wordpress.com). In addition, importing countries of Indonesian products on the order of 3 s.d. 10 (Singapore, PRC, India, Malaysia, South Korea, Netherlands, Thailand, Taiwan) accounted for about 45% of Indonesia's total exports. From this information, it is almost certain that all of the countries listed above are experiencing the impact of the global financial crisis resulting in an economic slowdown in every country. Further this will lead to a decrease in the ability to buy or even pay for export products produced by Indonesia, which in turn will hit export-oriented industries in Indonesia.

The impact of the world financial crisis is also felt by the industrial sector, which mostly still rely on raw materials from imported products where the price is increasing in the world market. Data from the Central Bureau of Statistics (BPS) (http://www.bps.go.id) shows that the growth of the large and medium manufacturing industry sector in the fourth quarter of 2008 was minus 3.26% compared to the III quarter of the same year. While in general up to 2010 despite an increase, but growth is still below the economic growth of Indonesia, while the growth of the new manufacturing sector reached 5.41%.

The influence of the financial crisis became the foundation for the company to maintain its performance based on the main purpose of the company was established, namely improving the welfare of shareholders. Welfare can be improved through good corporate performance. Good corporate performance is also meaningful for consumers, communities, employees, and suppliers, including the supplier is the creditor, the supplier of funds. The secondary purpose of the company's establishment is for the welfare of consumers, communities, employees and creditors. The secondary goal is the driving force for the achievement of the primary objectives of good corporate performance (Atkinson, Banker, Kaplan, and Young, 1997)

Company performance shows the company's ability to benefit from assets, equity, and debt. Company performance is a company's performance. The amount of assets to be one benchmark company in maintaining its performance. Assets owned also become the basis of the size of a small company. The size of the company can describe the financial performance of the company. In addition to company size, company performance measures can be seen from the company's financial performance as measured by the profitability of the company.

The company's performance measured by one of profitability is ROE examined by Khaira (2011) which examined the effect of capital structure, firm size, and agency cost on the performance of basic and chemical industry companies listed in Indonesian Stock Exchange in 2009. Partial test result states that there is a significant positive influence of capital structure on agency cost and significant negative effect of firm size on agency cost; while simultaneously there is no significant effect of capital structure, firm size, and agency cost on company performance.

Determining the company's capital structure is a difficult decision, involving several factors, such as risk and profitability. The decision becomes more difficult, in times when the economic environment where the company operates is experiencing high levels of instability. Therefore, the choice between ideal proportions of debt and equity can affect firm value and earnings management. *([www.indonesiarecovery.com](http://www.indonesiarecovery.com))*

Every company in decision-making for financing involves various policy issues. To understand how firms finance their operations, every company needs to examine the determinants of their funding or capital structure decisions. In private companies, they have implications for capital market development, interest rates and pricing security, and regulation. In private companies, the decisions affect the capital structure, corporate social responsibility and corporate development (Green, Murinde and Suppakitjarak, 2002).

The historical attempt to build a capital structure theory begins with Modigliani & Miller (MM) (1958). They disclose the situation under conditions in which the capital structure is relevant or irrelevant to the financial performance of firms listed in the capital market. Most decision-making processes related to capital structure are the determining factors when determining capital structure. The determinants are a number of issues such as costs, different types of taxes and tax rates, as well as interest rates have been proposed to explain the variations in the use of financial leverage (Van Horne, 2002, Hampton, 1990) from various sources of capital for structures corporate capital and the benefits associated with debt and equity financing.

The relationship between capital structure and financial performance is one of the contributions in the financial literature. How important is the control over the performance of the firm or the type of investor who exerts control over the relationship between capital structure and financial performance. To study the effect of capital structure or financial performance, it will help us to know the potential problems that exist in the performance and capital structure, as well as how the company maintains the performance and capital structure in the face of crisis.

The relationship between capital structure and financial performance is examined by Uwuigbe and Olayinka (2012). The research results stated that the capital structure is valued from short-term debt, shareholder funds and long-term debt. Short-term debt and shareholder funds have a significant positive relationship with financial performance, while significant long-term debt has a negative impact on the financial performance of listed companies in Nigeria. In contrast to Uwigbe and Olayinka, a similar study conducted by Puwanenthiren Pratheepkanth (2011) in the results of his research states, there is a negative relationship between capital structure and financial performance. This reflects the significant level of business firms in Sri Lanka largely dependent on debt capital. Therefore, they have to pay a lot of interest.

In addition to capital structure, insider ownership or managerial ownership can also be a variable that can affect financial performance, as investigated by Khalil, Syed, and Zahid (2012). The results of their research concluded that the ownership structure of non-financial companies had a significant negative effect on firm performance in Pakistan.

A review of various international journals, as well as the phenomenon of the financial crisis that began in 2008, hit the world market exchanges including the Indonesia Stock Exchange Market. Therefore, investigating the relationship between firm size, growth, capital structure, insider ownership, and corporate financial performance after the crisis is highly relevant to research.

The reason the authors choose the manufacturing sector because the manufacturing sector is affected significantly due to the global financial crisis, based on data from the Badan Pusat Statistik (BPS) (http://www.bps.go.id) so it needs to be further examined how the company maintains the financial performance of the company.

**Method**

The type of research can be classified in hypothesis testing research. This research is a type of research with problem characteristic of causality between two variables or more. So the purpose of this study is to see how the influence of one variable to other variables. The population in this study are Manufacturing Companies listed on Indonesia Stock Exchange (IDX) in 2009 until 2011 with purposive sampling method. After the sample is collected, the sample of 66 Manufacturing Companies that meet the predetermined criteria is to publish the financial statements continuously from 2009, 2010, and 2011.

**Results and Discussion**

This study uses manufacturing companies listed on the Indonesia Stock Exchange since 2009 until 2011 and has been selected through purposive sampling method amounting to 66 companies, while the number of sample observations during the year 2009 to 2011 amounted to 198 research samples. The significant level in this study is 5%, meaning the risk of mistake to make a decision is 5%. Test results can be seen from the table below:

Tabel 2

Hasil Uji t (t-test)

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| --- | --- | --- | --- | --- | --- | --- |
| B | Std. Error | Beta |
| 1 | (Constant) | 9.394 | 4.912 |  | 1.913 | .057 |
| Firm Size | -.118 | .749 | -.011 | -.158 | .875 |
| Growth | .238 | .048 | .325 | 5.007 | .000 |
| Capital Structure | -.304 | .147 | -.133 | -2.073 | .039 |
| Insider Ownership | .048 | .079 | .039 | .613 | .541 |
| a. Dependent Variable: Financial Performance | | | | | | |

Source: Data SPSS Version 16.0

**The Effect of Corporate Size on Financial Performance**

The results of hypothesis testing for firm size with a significance value of 0.875 or greater than 0.05, it can be concluded that the size of the company negatively affect the financial performance of manufacturing companies in BEI Year 2009-2011. This means that the size or magnitude of a company rated from the total asset log does not guarantee the good financial performance of the company. From the phenomenon of the financial crisis that occurred, it can be concluded that the size of the company does not affect the financial performance generated by the company. So the assumption that the company with a larger size is considered more able to face the crisis in running its business can not be proved in the results of this study.

Based on Positive Accounting Theory (PAT) Christie (1990) concluded firm size is a reflection of positive accounting theory application, where Firm Size is characteristic of a company, the amount of each asset owned by the company can vary between big company and small company. Rejection of this hypothesis is likely due to the size of the total assets as the size of the company has not given confidence to investors about the company's ability to manage the investments provided, so the size of the company does not affect the performance of the company.

These findings support research conducted by Khaira amalia (2011), from the results of his research also proves the size of the company assessed from the log of total assets has no effect on the performance of basic and chemical industry companies. These findings also support research conducted by Bala Ramasamy, Darryl Ong and Matthew C. H. Yeung (2005) the results of his research also proved that there is no significant influence between the size of the company with the financial performance of companies engaged in palm oil.

**The Effect of Growth on Financial Performance**

The results of hypothesis testing with a significance value of 0.000 or smaller than 0.05, it can be concluded that the results of testing the second hypothesis obtained that the growth has a positive and significant impact on financial performance at manufacturing companies in BEI Year 2009-2011. The growth of asset / growth in this study was measured using the proportion of increase and decrease in total assets of the company. Test results that have a positive direction mean that an increase in corporate growth as measured through asset growth will improve financial performance significantly. So it can be concluded that the growth of asset / growth affect the financial performance of the company after the financial crisis. Corporate growth is expected by both internal and external companies, as good growth signals the growth of the company. From the investor's point of view, the growth of an enterprise is a sign that the company has a favorable aspect.

These findings support the study of Dewa Kadek (2011) found evidence that partially growth has a positive and significant impact on the company's financial performance. This means that the company's growth assessed by the growth of its assets has a significant effect on the company's financial performance. The results of this study are not consistent with the results of research conducted Safrida, Eli (2008) who found that growth has a negative and insignificant effect on company performance.

**The Effect of Capital Structure on Financial Performance**

The results of hypothesis testing with a significance value of 0.039 or smaller than 0.05, it can be concluded that the results of testing the third hypothesis obtained that the capital structure has a positive effect on financial performance on manufacturing companies in BEI Year 2009-2011.  
  
 For every company, the decision on the selection of funding sources is important because it will affect the company's financial structure, which will ultimately affect the company's performance. The source of corporate funds is reflected by foreign capital and own capital as measured by debt to equity ratio (DER). Based on Positive Accounting Theory (PAT) formulated by Watts and Zimmerman (1986), The debt to equity hypothesis (debt covenant hypothesis) in companies that have high debt to equity ratio, company managers tend to use accounting methods that can increase revenue or profit. Companies with high debt to equity ratios will have difficulty in obtaining additional funds from creditors and even companies threatened to breach debt agreements.

The capital structure in this study is measured by debt to equity ratio, where DER is the ratio of total debt to total capital. The results of this study menunujukan that the debt owned by the company is greater than the equity owned by the company under study. So it can be concluded that the circumstances of the capital structure of the company studied from the year 2009-2011 or after the financial crisis that occurred, affects the financial performance generated by the company. There is a positive relationship in this hypothesis because the manager can utilize the source of funds (internal and external) effectively, so that the capital structure affect the financial performance generated.  
  
 These findings support research conducted by Dewa Kadek (2011) from the results of his research states that the capital structure has a positive and significant effect on financial performance, unlike the results of research conducted by Puwanenthiren Pratheepkanth (2011) and Y. Lingesiya, P. Premkanth (2011) where the results of his research found evidence that the partial capital structure negatively affect the financial performance of business enterprises in Sri Lanka. So also with the results of research from Onaolapo and Kajola (2010) that the partial capital structure has a negative and significant impact on the financial performance of companies in Nigeria.

**Influence of Insider Ownership To Financial Performance**

From the results of hypothesis testing with a significance value of 0.541 or greater than 0.05, it can be concluded that the results of testing the fourth hypothesis obtained that insider ownership negatively affect financial performance at manufacturing companies in BEI Year 2009-2011. This means that the large share ownership dominated by insider ownership or management does not guarantee the good performance of the company after the financial crisis. The rejection of this hypothesis is likely to occur because after the crisis, managerial ownership is too low that the manager's performance in managing the company is less than optimal and the manager as a minority shareholder has not been able to participate actively in making a decision in the company, thus not affecting the financial performance.

The term insider ownership is used to show the percentage of ownership by managers and institutional (Jensen and Meckling: 1976), meaning that insider ownership also describes how much shares are owned by public, insider and outsider ownership. According to agency teory, the separation between ownership and management of a company can lead to agency conflict. These agency conflicts are due to the different interests of principals and agents, the difference in interests between management and shareholders result in management cheating and unethical behavior that harms shareholders. Therefore, it is necessary to have a control mechanism that can align the difference of interest between management and stock. According to Jensen and Meckling (1976) the greater the ownership of shares by management the stronger the tendency of management to optimize the use of resources resulting in an increase to the financial performance of the company.  
  
 These findings support research conducted by Bala Ramasamy, Darryl Ong and Matthew C. H. Yeung (2005) found that ownership structure negatively affects the financial performance of firms in Malaysia. These findings also support the research of Khalil, Syed, and Zahid Hussain (2012) who found that ownership structure negatively affects the financial performance of firms in Pakistan. The results of this study are not consistent with the research conducted by Sanghoon Lee (2008), where Sanghoon concluded that the ownership structure has a positive and significant effect on the financial performance of the company in Korea.

**Conclusions**

Based on the results of research and discussion above, it can be concluded that: Company size with significance level of 0.875 or greater than the 0.05 level of significance. This means there is no significant influence between the size of the company on the financial performance of Manufacturing companies listing on the Indonesia Stock Exchange (BEI) after the financial crisis. So it can be concluded the amount of total assets as the size of the company has not given confidence to investors about the company's ability to manage the investments provided, so the size of the company does not affect the performance of the company.

Growth with a significance level of 0.000 or smaller than the 0.05 level of significance. This means that there is a significant influence between growth on the financial performance of Manufacturing companies listing on the Indonesia Stock Exchange (BEI). So it can be concluded that the increase in corporate growth measured through asset growth will improve the financial performance of the company even after the financial crisis.

Capital structure with a significance level of 0.039 or less than the 0.05 level of significance. This means that there is a significant influence between the capital structure on the financial performance of the Manufacturing company listing on the Indonesia Stock Exchange (BEI) after the financial crisis. So it can be concluded that managers utilize the source of funds (internal and external) effectively, so that the capital structure can affect the financial performance generated by the company.

Insider Ownership with a significance level of 0.541 or greater than the 0.05 level of significance. This means there is no significant influence between insider ownership on the financial performance of Manufacturing companies listing on the Indonesia Stock Exchange (BEI) after the financial crisis. So it can be concluded that the amount of ownership dominated by insider ownership or management does not guarantee the good performance produced by the company.

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