3The Role of Institutional Ownership on the Determinants of Profitability

Eny Maryanti[1], **Fatma Agustin Ningrum**[2]
[1,2] Accounting Department, Faculty of Business, Law, and Social Sciences, Universitas Muhammadiyah Sidoarjo, Indonesia,
enymaryanti@umsida.ac.id

ABSTRACT

Introduction – The company's profitability is the company's ability to generate net profit from activities company in generating net income from activities carried out in the accounting period. Factors that affect profitability have inconsistent results, therefore in this study we add institutional ownership as a moderating variable.
Purpose – This study aims to determine the factors that affect profitability with institutional ownership as a moderating variable in consumer goods industry companies listed on the Indonesia Stock Exchange in 2017-2019.
Methodology/Approach – The population of this study is the consumer goods industry companies listed on the Indonesia Stock Exchange in 2017-2019, totaling 114 companies. The number of research samples is 42 companies. This study uses the SmartPLS 3 (Partial Least Square) data analysis test.
Findings – The results of this study indicate that institutional ownership as a moderating potential for the relationship of cash turnover to profitability, receivables to profitability, and the relationship of liquidity to profitability.
Originality/ Value/ Implication – This study uses institutional ownership as a pure moderator which strengthens the relationship of inventory turnover to profitability significantly.

Keywords: cash turnover, receivables turnover, inventory turnover, liquidity, institutional ownership.

INTRODUCTION

The company's profitability is the company's ability to generate net profit from activities company in generating net income from activities carried out in the accounting period. Profit is a description of the performance that can be achieved from the general transaction processes carried out by the company in certain period. Profit is used as an indicator by stakeholders to assess the extent to which performance management in managing a company. The level of the company's ability to earn a profit or profits can be seen and measured by analysing financial statements through profitability ratios. This ratio shows the success of a company in generating profits. Profitability is also important means to strengthen the financial position.

The profitability of a company can be achieved through various efforts made during the current period. According to Sari & Abudanti (2014) states that profitability is a measure of the company's performance as indicated by the profits generated by the company. Profitability will reflect the success and effectiveness of management as a whole, where this ratio will show the consideration of revenue and the company's ability to generate profits at various levels of operations. So, what is meant by profitability (ability to earn a profit) is a measure in percentage used to assess the extent to which the company is able to generate profits at an acceptable level.

To gain profits, the company must compete with similar companies. Companies in the consumption sector are growing rapidly, so companies not only pay attention to product innovation but also have to focus on company management policies to be wiser in using existing resources. To achieve the company's goals, the company must have working capital in order to fulfill the company's operations.

Working capital has three components, namely cash, accounts receivable and inventory. In order to increase the company's economic growth or maximize profitability, it can be managed with the three components of working capital in different ways. The first component of working capital which is also a factor that can affect profitability is cash turnover.

When cash is invested in the working capital component, the working capital turnover has begun until it returns to cash. If the turnover of working capital is faster, it can show the more effective use of working capital. Cash turnover is the ratio of sales to the average amount of cash. Cash turnover describes the ability of cash to generate income so that it can be seen from how many times the cash rotates in one period. Previously, research had been conducted on the effect of cash turnover on profitability, but the results of previous studies showed inconsistent results. According to Budiansyah et al., (2014) states that cash turnover has a significant effect on profitability. However, compared to the results of research Rahayu & Susilobowo (2014), which states that cash turnover has no effect on profitability. The second factor that can affect profitability is receivables turnover.

Accounts receivable turnover can be used to measure how long it takes to collect receivables in one period. The higher the receivables turnover indicates that the working capital invested in receivables is lower and of course the condition will be better for the company (Kasmir, 2012). Previously, research had been done on receivables turnover on profitability, but the results of previous studies showed inconsistent results. According to Santoso (2013) states that accounts receivable turnover has a significant effect on profitability, while according to Rahayu & Susilobowo (2014) states that receivables turnover has no significant effect on profitability. The third factor that can affect profitability is inventory turnover.

Accounts receivable turnover can be used to measure how long it takes to collect receivables in one period. The higher the receivables turnover indicates that the working capital invested in receivables is lower and of course the condition will be better for the company (Kasmir, 2012). Previously, research had been done on receivables turnover on profitability, but the results of previous studies showed inconsistent results. According to Santoso (2013) states that accounts receivable turnover has a significant effect on profitability, while according to Rahayu & Susilobowo (2014) states that receivables turnover has no significant effect on profitability. The third factor that can affect profitability is inventory turnover.

Inventory turnover is a way to measure a company's turnover of merchandise and shows the relationship between goods used to support or offset a predetermined level of sales (Riyanto, 2010). Previously, research had been conducted on inventory turnover on profitability, but showed inconsistent results. According to Suminar (2013) states that inventory turnover has an effect on profitability, while according to Surya et al., (2017) reveals that inventory turnover has no effect on profitability. The fourth factor that can affect profitability is liquidity.

The company's liquidity is also a matter of great concern, because this ratio shows the ability of a company to meet its financial obligations in the short term or which must be paid. Previously, research on liquidity on profitability had been conducted, but showed inconsistent results. According to Mayasari et al., (2016) states that liquidity has a positive and significant effect on profitability but is inversely proportional to the results of research Wibowo & Wartini (2013) which states that liquidity has no effect on profitability.

Factors that affect profitability have inconsistent results, therefore in this study we add institutional ownership as a moderating variable. Institutional ownership has an important role in supervising the management in managing the company. According to Sanjaya & Jufrizen (2017) states that institutional ownership is able to provide pressure for the implementation of good corporate governance to run. It also states that institutional ownership moderates the effect of cash turnover, receivables turnover and fixed asset turnover together on profitability (ROE).

This study is a replication of research Deni (2014) entitled "The Effect of Cash Turnover, Accounts Receivable Turnover and Inventory Turnover on Profitability". The difference between this study and previous research is by adding liquidity as an independent variable and using institutional ownership as a moderating variable.

METHODS

This research was conducted on Consumer Goods Industry companies listed on the IDX in 2017-2019. The data is taken from the IDX's official website (www.idx.co.id) in the form of annual financial reports and 2017-2019.

Table 1. Research Variables

Variable	Definition	Indicator	Scale
Profitability (Y)	Profitability is a ratio used to assess the company's ability to seek profit (Kasmir, 2012).	ROE = Profit after tax/Capital	Ratio
Cash Turnover (X1)	Cash turnover is the ratio between sales and the average amount of cash (Riyanto, 2010).	Cash Turnover = Net Sales/Cash	Ratio
Accounts Receivable Turnover (X2)	Accounts receivable turnover as part of the working capital component which is always in a state of rotation (Riyanto, 2010).	Accounts Receivable Turnover = Net Sales/Average Accounts Receivable	Ratio
Inventory Turnover (X3)	Inventory Turnover is a ratio used to measure how many times the funds are invested in one period (Kasmir, 2012).	Inventory Turnover = Net Sales/Inventory	Ratio
Liquidity (X4)	The liquidity ratio is a ratio that shows the relationship between cash and other current assets with short-term liabilities (Brigham & Houtson, 2009).	Current Ratio = Current Assets52/Current Debt	Ratio

Institutional Ownership (Z)	Institutional ownership is the ownership of a company's shares by institutions/institutions (Agustina et al., 2015)	Institutional Ownership = Total Share Ownership/Number of Outstanding Shares	Ratio

Population and Sample

The population in this study are Consumer Goods Industry companies listed on the IDX in 2017-2019, totaling 114 companies. The sample in this study used a non-probability sampling method using a purposive sampling technique. That is, the sampling technique is carried out with certain considerations or criteria (Sugiyono, 2010). These criteria include:

1. Consumer Goods Industry Companies listed on the IDX in 2017-2019.
2. In pharmaceutical sub-sector companies listed on the IDX in 2017-2019.
3. In cosmetics and household needs sub-sector companies in 2017-2019.
4. In pharmaceutical, cosmetic and household sub-sector companies that present complete and sequential financial reports.
5. Availability and completeness needed during the research process.
6. Financial statements presented in rupiah currency.

Types and Sources of Data

The type of data used in this study is secondary data in the form of data on the financial statements of companies listed on the IDX in 2017-2019. The data was obtained through the IDX's official website, namely www.idx.co.id (Bursa Efek Indonesia, 2018).

Data Analysis Method

The analytical technique used in this research is the Partial Least Square (PLS) test. Abdilah & Jogiyanto (2015) explained that PLS is an analytical method that is soft modelling because it does not assume that the data must be measured on a certain scale, which means the number can be small (under 100 samples). PLS as a predictive model does not assume a certain distribution to estimate parameters and predict causality. Therefore, a parametric technique to test the significance of the parameters is not required and the evaluation of the model for the predicate is non-parametric. The evaluation of the PLS model is carried out by developing the outer model and inner model.

RESULTS AND DISCUSSION

Inner model

The R-Square value of 0.834 means the validity of the profitability construct which can be explained by the constructs of cash turnover, receivables turnover, inventory turnover, liquidity with interactions of 0.834% while 16.6% is explained by other variables not included in the study.

Tabel 2 *R Square*

	R Square
Profitabilitas	0,834

Hypothesis testing is done by comparing the T value with the T table. The results of Path Coefficients and significance test are as follows:

Evaluation of the Measurement Model (Outer Model)

Data analysis was carried out by entering all data and testing convergent validity, discriminant validity and significance testing. Evaluation of the measurement model is the evaluation of the relationship between the construct and its indicators. The PLS measurement evaluation model is based on predictive measurements that have non-parametric properties. The measurement model or outer model with indicator reflection is evaluated with convergent and discriminant validity of the indicators and composite reliability for the indicator block. Here is the display of the SmartPLS output in table 2

Table 3 *Path Coefficients*

	Original sample (O)	T Statistics (O/STDEV)	P Value
Moderating Effect 1 -> Profitability	-1,389	1,569	0,117
Moderation Effect 2 -> profitability	0,007	0,045	0,964
Profitability Moderating Effect 3 -> Profitability	0,69	2,201	0,028
Profitability Moderating Effect 4 -> Profitability	-0,269	0,714	0,475
Institutional Ownership -> Profitability	0,445	1,125	0,261
Liquidity -> Profitability	0,096	0,557	0,578
Cash Turnover -> Profitability	0,248	0,584	0,559
Inventory Turnover -> Profitability	-0,115	0,564	0,573
Accounts Receivable Turnover -> Inventory	0,139	1,322	0,187

The relationship test between constructs shows that the moderating effect construct 1 (the interaction construct between cash turnover and institutional ownership) is considered not able to affect profitability and is not significant at 5% (T count 1.596 < 1.96) and the P Value is 0.117 so that P Value > 0.05. The test results of moderating effect 1 (the interaction construct between cash turnover and institutional ownership) are non-significant and the institutional ownership construct on profitability is non-significant. So it can be concluded that the results of the moderating effect 1 test are a type of potential moderator (modulator homologizer). This means that the moderator variable can affect the strength of the relationship, but does not interact with the independent variable and is not significantly related to either the independent variable or the dependent variable (Sharma et al., 1981).

The relationship test between constructs shows that the moderating effect construct 2 (interaction construct between receivables turnover and institutional ownership) is considered not able to affect profitability and is not significant at 5% (T count 0.045 < 1.96) and the P Value is 0.964 so that P Value > 0.05. The test result of moderating effect 2 (interaction construct between receivables turnover and institutional ownership) is non-significant and the institutional ownership construct on profitability is non-significant. So it can be concluded that the results of the moderating effect 2 test are a type of potential moderation (modulator homologizer).

The test of the relationship between constructs shows that the moderating effect construct 3 (interaction construct between inventory turnover and institutional ownership) is considered capable of influencing profitability and is significant at 5% (T count 2,201 > 1.96) and the P Value is 0.028 so that P Value < 0, 05. The test result of moderating effect 3 (interaction construct between inventory turnover and institutional ownership) is significant and the construct of institutional ownership on profitability is non-significant. So it can be concluded that the results of the moderating effect 3 test are pure moderator. This means that the variable that moderates the relationship between the independent variable and the dependent variable where the pure variable interacts with the independent variable without being an independent variable (Sharma et al., 1981).

The relationship test between constructs shows that the moderating effect construct 4 (interaction construct between liquidity and institutional ownership) is considered not able to affect profitability and is not significant at 5% (T count 0.714 < 1.96) and P Value is 0.475 so P Value > 0 ,05. The test result of moderating effect 4 (construct of interaction between liquidity and institutional ownership) is non-significant and the construct of institutional ownership on profitability is non-significant. So it can be concluded that the results of the moderating effect 4 test are a type of potential moderation (modulator homologizer).

Discussion

Hypothesis testing: Cash turnover, accounts receivable turnover, inventory turnover and liquidity affect profitability which is moderated by institutional ownership in consumer goods industry companies listed on the IDX. The results of the analysis carried out using smartPLS can be seen in table 9 which shows varied results.

1. The effect of cash turnover on profitability with institutional ownership as a moderating variable
   From table 9 it can be seen that the relationship test between constructs shows the moderating effect construct 1 (the interaction construct between cash turnover and institutional ownership) is considered insignificant at 5% (T count 1.596 < 1.96) and the P Value is 0.117 so that P Value > 0.05 so that the results of this study indicate that institutional ownership has the potential to moderate the relationship between cash turnover and profitability. The test results of moderating effect 1 (the interaction construct between cash turnover and institutional ownership) are non-significant and the institutional ownership construct on profitability is non-significant. While the moderating variable regression coefficient between cash turnover and institutional ownership is -1.389 which shows a negative result.

   In the test results, the moderating effect 1 is a type of potential moderator (homologizer moderator). That is, institutional ownership is considered theoretically has the potential to be a moderating variable between cash turnover and profitability. Institutional ownership has the potential to be a moderating variable, which has the potential to weaken the relationship between cash turnover and profitability. This is because institutional ownership as external share ownership, increasing institutional ownership weakens the relationship between cash turnover and Return On Equity so that increasing company shares may not necessarily increase Return On Equity generated by cash turnover.

   The results of this study are in line with research Sanjaya & Wahyudi (2017) which states that institutional ownership has the potential to weaken the relationship between cash turnover and profitability. However, it is inversely proportional to the results of research Sanjaya & Jufrizen (2017) which states that institutional ownership does not moderate the effect of cash turnover on Return On Equity.

2. The effect of receivables turnover on profitability with institutional ownership as a moderating variable
   The relationship test between constructs shows that the construct of moderating effect 2 (interaction construct between receivables turnover and institutional ownership) is considered insignificant at 5% (T count 0.045 < 1.96). As well as the P Value of 0.964 so that the P Value > 0.05, it can be concluded that institutional ownership has the potential to be a moderating variable of the relationship between receivables turnover and profitability. The test result of moderating effect 2 (interaction construct between receivables turnover and institutional ownership) is non-significant and the institutional ownership construct on profitability is non-significant. While the regression coefficient of the moderating variable between receivables turnover and

institutional ownership is 0.007 which shows positive results.

In the test results, the moderating effect 2 is a type of potential moderator (homologizer moderator). That is institutional ownership which is considered theoretically has the potential to be a moderating between receivables turnover on profitability and the regression coefficient which shows positive results. Institutional ownership has the potential to be a moderating variable, namely strengthening the relationship between receivables turnover and profitability. This is because institutional ownership owned by the company is sufficient to increase the Return On Equity generated through receivables turnover. The results of this study are in line with research Sanjaya & Wahyudi (2017) but inversely with research research Sanjaya & Jufrizen (2017) which states that institutional ownership cannot moderate the effect of receivables turnover on profitability.

3. The effect of inventory turnover on profitability with institutional ownership as a moderating variable
The correlation test between constructs shows that the moderating effect construct 3 (interaction construct between inventory turnover and institutional ownership) is considered to have the potential to affect profitability and is significant at 5% (T count 2.201 > 1.96). And the P Value is 0.028 so that the P Value is 0.05, thus it can be concluded that institutional ownership is able to moderate the relationship between inventory turnover and profitability. The results of the moderating effect test 3 (constructs between inventory turnover and institutional ownership) are significant and the construct of institutional ownership on profitability is non-significant. So it can be concluded that the test results on the moderating effect 3 is a type of pure moderation (pure moderator). While the moderating variable regression coefficient between inventory turnover and institutional ownership is 0.690 which shows positive results.

In the test results moderating effect 3 is a type of pure moderation (pure moderator). This means that the moderating variable is the relationship between the independent variable and the dependent variable where the pure moderating variable interacts with the independent variable without being an independent variable (Sharma et al., 1981). And the regression coefficient shows positive results so it can be concluded that institutional ownership strengthens the influence between inventory turnover and profitability. The test results identify that institutional ownership can significantly strengthen the relationship between inventory turnover and profitability. The relationship between inventory turnover and profitability is a unidirectional relationship, meaning that if inventory turnover is high, profitability will increase and vice versa.

The results of this study are in line with research Wahyuni (2017). The greater the institutional ownership, the more efficient the utilization of company assets, so that institutional ownership can monitor the management of company assets. However, it is inversely proportional to the results of research Home & J (2012) which states that institutional ownership does not affect the relationship between inventory turnover and Return On Equity.

4. The effect of liquidity on profitability with institutional ownership as a moderating variable
The correlation test between constructs shows that the moderating effect construct 4 (interaction construct between liquidity and institutional ownership) is not significant at 5% (T count 0.714 < 1.96). And the P Value is 0.475 so that the P Value is 0.475 > 0.05. Thus, it can be concluded that institutional ownership has the potential to moderate the relationship between liquidity and profitability. The results of the moderating effect test 4 (interaction construct between liquidity and institutional ownership) are non-significant and the institutional ownership construct on profitability is non-significant. So it can be concluded that the test results on moderating effect 4 are a type of potential moderator (modulator homologizer). While the moderating variable regression coefficient between liquidity and institutional ownership is -0.269 which indicates a negative result.

Institutional ownership has the potential to be a moderating variable, which has the potential to weaken the relationship between liquidity and profitability. This is because the company is faced with a trade off problem between liquidity and profitability (Dwi & Febrianto 2015). Increased liquidity is a cost of decreasing profitability. When a company wants to increase its profitability, it will face a decrease in the level of liquidity. The higher the liquidity, the better the company's position in the eyes of creditors. From the perspective of shareholders, high liquidity is not profitable because it can cause idle funds.

The results of this study are in line with the results of research conducted by Ulzanah & M (2015) which states that liquidity has a weak relationship (no effect on profitability). However, it is inversely proportional to the results of research [27] which states that institutional ownership significantly strengthens the effect of the current ratio on profitability.

CONCLUSION

Based on the discussion of the research results described, conclusions can be drawn from research on the factors that affect profitability with institutional ownership as a moderating variable in consumer goods industry companies listed on the IDX in 2017-2019 as follows: The results of the research on the effect of cash turnover on profitability with institutional ownership as a moderating variable is potential moderating The results of the research on the effect of receivables turnover on profitability with institutional ownership as a moderating variable is potential moderation. The results of the research on the effect of inventory turnover on profitability with institutional ownership as a moderating variable is pure moderating or pure moderation, namely institutional ownership can significantly strengthen the relationship between inventory turnover and profitability.

The results of the research on the effect of liquidity on profitability with institutional ownership as a moderating variable is potential moderating.

ACKNOWLEDGMENTS

We would like to thank all those who have supported this research.

REFERENCES

Abdillah W & Jogiyanto. (2015). Partial Least Square (PLS).

Agus Wibowo dan Sri Wartini. (n.d.). Pengaruh Efisiensi Modal Kerja dan Likuiditas Terhadap Profitabilitas Pada Perusahaan Real Estate dan Property Yang Terdaftar di Bursa Efek Indonesia. Jurnal Administrasi Bisnis, 2013.

Agustina, Y., & Istanti, lulu nurul. (2015). Pengaruh kepemilikan manajerial, kepemilikan institusional, kebijakan dividen dan. In Fe.Unp.Ac.Id.

Brigham and Houston. (2009). Foundamentals of Financial Management (South-Westtern Cengange Learning (ed.); 12th ed.).

Budiansyah, O., Safitri, Y., Mdp, S., & Rajawali, J. (2014). *Pengaruh Perputaran Kas , Perputaran Piutang , dan Perputaran Persediaan Terhadap Profitabilitas*. *x*, 1–12.

Bursa Efek Indonesia. (2018). Laporan Keuangan dan Tahunan. www.idx.co.id.

Deni, I. (2014). Pengaruh Tingkat Perputaran Kas, Perputaran Piutsng dan Perputaran Persediaan terhadap Profitabilitas Pada Perusahaan Manufaktur yang terdaftar di Bursa Efek Indonesia. Jurnal Akuntansi. Fakultas Ekonomi. Universitas Maritim Raja Ali Haji. Kepulauan Riau, 1.

Dwi, E., & Febrianto, A. (2015). Pengaruh Rasio Likuiditas Dan Solvabilitas Terhadap. 4(8), 94–101.

Jogiyanto & Willy Abdillah. (2016). Konsep & Aplikasi PLS untuk Peneliti Empiris (1st ed.). BPFE.

Kasmir. (2012). *Analisis Laporan Keuangan*. PT. Raja Grafindo Persada.

Mayasari, A., Andini, R., Pranaditya, A., & Oemar, A. (2016). Pengaruh Perputaran Piutang, Arus Kas, Perputaran Persediaan Terhadap Likuiditas Dengan Profitabilitas Sebagai Variabel Intervening. 1–11.

Rahayu, E. A., & Susilowibowo, J. (2014). Pengaruh Perputaran Kas, Perputaran Piutang Dan Perputaran Persediaan Terhadap Profitabilitas Perusahaan Manufaktur. Jurnal Ilmu Manajemen, 2(4), 1444–1455.

Riyanto, B. (2010). Dasar-Dasar Pembelanjaan Perusahaan. In 4 (p. 69). BPFE.

Sanjaya, S., & Jufrizen, J. (2017). Peran Moderasi Kepemilikan Institusional Terhadap Determinan Return on Equity Di Bursa Efek Indonesia. Jurnal Ilmiah Manajemen & Bisnis, 18(2), 189.

Sanjaya & Wahyudi. (2017). Peran Moderasi Kepemilikan Institusional Terhadap Determinan Return On Equity di Bursa Efek Indonesia. Akuntansi, Nidn 0121077701.

Santoso, C. (2013). Perputaran Modal Kerja Dan Perputaran Piutang Pengaruhnya Terhadap Profitabilitas Pada Pt. Pegadaian (Persero). *Jurnal Riset Ekonomi, Manajemen, Bisnis Dan Akuntansi*, *1*(4), 1581–1590.

Sari & Abundanti. (2014). Pengaruh Pertumbuhan Perusahaan Dan Laverage Terhadap Profitabilitas dan Nilai Perusahaan. E-Jurnal Manajemen, 3 No. 5.

Sharma, Subhash, R. M. D. dan O. G. (1981). Identifikasi dan Analisis Variabel Moderator. Jurnal Riset Pemasaran, XVIII.

Sugiyono. (2010). Metode Penelitian Kuantitatif Kualitatif & RND. Alfabeta.

Suminar, M. T. (2013). Pengaruh Perputaran Persediaan, Perputaran Piutang Dan Perputaran Kas Terhadap Profitabilitas Pada Perusahaan Sektor Industri Barang Konsumsi Yang Terdaftar Di Bei Periode 2008-2013. *Jurnal UNPAD*, 1–19.

Surya, S., Ruliana, R., & Soetama, D. R. (2017). Pengaruh Perputaran Kas dan Perputaran Persediaan Terhadap Profitabilitas. *Akuntabilitas*, *10*(2), 313–332.

Syafitri, L. (2015). Pengaruh Inventory Turnover dan Teori Total Assets Turnover terhadap Profitabilitas pada CV. Teknik Kenanga Ogan Ilir. *Jurnal Ilmiah STIE MDP*, *4 (2)*, 74–83.

Van Horne, J. C. and J. M. W. J. (2012). Prinsip-prinsip Manajemen Keuangan (13th ed.). Salemba Empat.

Ulzanah, A. A. dan I. M. (2015). The Impact of Earning Per Share, Debt to Equity Ratio and Cureent Ratio Towards The Profitability of Companies Listed in LQ45 from 2009 - 2013. Journal of Business and Management, 4 (1), 18–27.

Wahyuni, S. F. (2017). *Memoderasi Pengaruh Current Ratio , Debt To Equity Ratio , Total Asset Turnover Dan Inventory Turnover Terhadap Return on Equity*. *1*, 147–158.