

# The effect of stock return and ownership structure on investment risk in manufacturing companies listed on the Indonesian Stock Exchange (IDX) 2011 - 2013

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## ABSTRACT

This research aims to examine the effect of stock returns and ownership structure on the investment risk. The variables of this study are dependent variable, consisting of investment risk, and independent variable, consisting of stock return and ownership structure. The ownership structure in this study is measured using managerial ownership and institutional ownership. The study sample consists of 101 manufacturing companies listed on the Indonesian Stock Exchange (IDX) 2011-2013. The result indicates that stock return has a positive effect on investment risk. If the investors expect the higher return rate, they must have the courage to bear the higher risk. The ownership structure does not have a negative effect on investment risk. It is because the ownership structure of a company is not included among the factors that affect the size of the investment risk that is likely to be experienced by investors. The implication of this study is that investors pay less attention to the ownership of the company to be invested. Therefore, the investors are expected to be more aware of the importance of ownership and corporate governance. Thus, it can reduce the failure experienced by investors in investing.

## ABSTRAK

Penelitian ini bertujuan untuk menguji pengaruh return saham dan struktur kepemilikan terhadap risiko investasi. Variabel dependen terdiri dari risiko investasi, adapun variabel independen terdiri dari return saham dan struktur kepemilikan. Struktur kepemilikan dalam penelitian ini diukur dengan menggunakan kepemilikan manajerial dan kepemilikan institusional. Sampel penelitian terdiri dari 101 perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) 2011-2013. Hasil penelitian menunjukkan bahwa return saham memiliki pengaruh positif pada risiko investasi. Jika investor mengharapkan tingkat pengembalian yang lebih tinggi, mereka harus memiliki keberanian untuk menanggung risiko yang lebih tinggi juga. Adapun struktur kepemilikan tidak memiliki pengaruh negatif pada risiko investasi. Hal ini karena struktur kepemilikan perusahaan tidak termasuk di antara faktor-faktor yang mempengaruhi ukuran risiko investasi yang mungkin akan dialami oleh investors. Implikasinya adalah bahwa investor kurang memperhatikan kepemilikan perusahaan untuk diinvestasikan. Oleh karena itu, investor diharapkan untuk lebih menyadari pentingnya kepemilikan dan tata kelola perusahaan. Dengan demikian, mereka bisa mengurangi kegagalan yang dialami oleh investor dalam berinvestasi.

## 1. INTRODUCTION

In the era of global economy, the object used as a means of investment has improved significantly and it is easy to do it throughout the world that is by investing in capital market. Capital market can

be regarded as a liaison between the owner of the fund, referred to as the investor, and the company that requires the funds, referred to as the issuer. In this case, the function of the capital market can be divided into two parts, namely economic function

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and financial function. Capital market, based on the economic function, is as a means of providing the facility to channel funds from those who have surplus funds to those in need of funds. Yet, the capital market, based on financial function, is as a means of providing funds needed by other parties without having to be directly involved in the company's operation (Husnan 2005: 4).

Investors, as the party that have excess funds, can include or distribute their funds as the capital to the companies in need of funds, so that the companies can operate in a larger scale, which in turn would increase the revenue of the companies and the prosperity of the community. Thus, the capital market can provide opportunities to earn greater profits in a short time, especially for the investors themselves.

Investment is an activity to invest funds in a certain amount on an object with the hope to obtain greater profits in the future. The investment decisions, made by investors for the foreseeable future, contain high elements of uncertainty. There is possibility to earn profit and there is also possibility to experience losses. This uncertainty in profit or loss is often referred to as the risk in investment.

Investment risk is a condition that occurs because of the uncertainty of investing, which can make the results different from the expectation. Rational investors, in making investment decisions, should not only take into account the level of return, but also consider the level of risk and choose the most efficient investment opportunities (Husnan 2005: 39).

Knowledge of the level of risk that may be experienced by investors in making investment is considered important. Investors need to know what factors that can affect the level of such risks in advance. One of the factors that affect the investment risk is the return rate of the investment made. Jogiyanto (2014: 257) stated that there is a positive relation between return and risk. The higher the return to be earned is, the higher the risk to be faced by the investors.

If the investors want the high return from their investment, they will have to make a big sacrifice in accordance with the level of profit expected. This big sacrifice will lead to a higher risk. So, it can be concluded that the high return will always result in the high risk.

One type of investment that is often carried out in the capital market is stock investment. Stock constitutes the proof of owning a company. Investment in stock can be considered good if the stock is able to provide realization return, which is not too far

from the expected return. Realization return is the return that has occurred, while the expected return is the return that is expected by investors in the future (Jogiyanto 2014: 235).

Not all companies listed on the stock market, which have good profit/earnings, will either give good return. Return may fluctuate at any time. This occurs due to various factors. One of the factors to be considered before investing in the stock market is to see the condition of the company to be invested. An investor should also know whether the condition of the company is good or bad. One viewpoint to see the good or bad side of the company's condition is through its ownership structure.

The company, which has a good ownership structure, is surely able to manage its earnings well, so that it can make the company's stock price increase and be accompanied by the increase in the company's stock returns. The ownership structure can also affect the size of the investment risk (Tendy 2008).

The ownership structure of the company, which is dominantly owned by institutional party, will conduct tighter supervision over the company management. The supervision will make the management party do operational activities better than before. It can also affect corporate governance to be better, so that the companies can reduce the risks that are likely to occur.

In addition to institutional ownership structure, some companies are also owned by managerial ownership. This managerial ownership is making dual role between shareholders and management. The dual role that occurs because of managerial ownership can reduce the agency conflict. The shareholders and the management have the same aim that both of them do not want the company to be in financial disruption and even bankruptcy. Therefore, the company will seek to minimize the possibility of the risk to occur.

Based on the phenomenon that frequently happens in companies, this study attempts to examine the factors that affect the investment risk such as stock return and ownership structure. This study takes the sample of manufacturing industry since industry has a greater number of companies than the other industries, and this is expected to be able to show the relevant and accurate results in determining the investment risk faced by companies.

Many researchers have conducted studies on stock returns and ownership structure separately, such as A Zubaidi (2006), who conducted research

on stock returns and Tendy (2008), who conducted research on the ownership structure. Other researchers are Siti, Julenah, & Chudori (2011), who conducted the research on the effect of stock return, inflation and ownership structure on the investment risk, stated that the stock return has an effect on the investment risk, while inflation and ownership structure have no effect on the investment risk. The research conducted by Tendy (2008) revealed that the ownership structure variable measured using managerial ownership, institutional ownership and Dividend Payout Ratio (DPR) can significantly affect the stock prices. This is supported by a research conducted by Suranta & Midiastuti (2003) stating that the OLS regression results show that the relationship between managerial ownership and investment cannot be determined but this managerial ownership affects the corporate investment. Based on this background, the researchers intend to conduct the research on the investment risk entitled "*The Effect of Stock Return and Ownership Structure on Investment Risk in Manufacturing Companies Listed on the Indonesian Stock Exchange 2011-2013*".

## **2. THEORETICAL FRAMEWORK AND HYPOTHESIS**

### **Agency Theory**

Agency theory focuses on two parties, namely the shareholders, or known as the principal, and the management, or known as the agent. Each of the parties seeks to maximize his own interest. The principal wants the company to keep growing and gain a substantial return on the investment he has made, so he demands the agent to provide a high profit. However, the management or agent tends to try to retain his post and get high compensation on his performance. The difference of interest is that it is in accordance with the agency theory.

In the agency theory, both the agent and the principal want to maximize their profit with the information they have. But, the agent has more information than the principal, so that this will lead to asymmetry of information. According to Scott (2012), the asymmetry of information is divided into two:

- a. Adverse selection, i.e. managers and other insiders who know more about the company's condition and prospect than the investors do.
- b. Moral hazard, i.e. activities performed by managers, in which such activities are not entirely known by the shareholders and creditors, so that the managers can take action beyond their knowledge.

### **Signaling Theory**

Information is really needed by investors in making investment because information can provide a description/condition of the past, the future, even the future development of a company. The information required by the investors should be relevant and useful information that can support the investors in making investment decisions (Jogiyanto 2014: 587).

Savitri and Nurul (2014) stated that signalling theory is used to explain the benefits of information to give a positive or negative signal to the users. According to Jogiyanto (2014: 588), the information reported and published is as an announcement that produces a positive signal, which is expected that the market will react immediately.

The market reaction can be indicated by the changes in the volume of stock trading. Market participants will interpret and analyze the information as good news or bad news. Information can be said to be good news if the information shows an overview that the company has good prospects in the future, and vice versa, to attract investors to trade stocks. Thus, there will be a change in the volume of stock trading.

### **Portfolio Theory**

Portfolio theory is a theory concerning the relationship between the expected portfolio returns and the level of portfolio risk accepted, as well as showing how the formation of the optimal portfolio. Portfolio theory is based on the effect of the investor's decisions on the price of securities, and shows the relationship that should occur between the return and the risk of securities if the investors establish a portfolio according to portfolio theory (Jogiyanto 2014: 649). In accordance with portfolio theory, the level of expected return and the level of risk have a positive relationship. The greater the risk, the greater the expected return, and vice versa (Jogiyanto 2014: 257).

### **Stock Return**

Return is the profits or results obtained from investing activities. Return can be in a form of realization return or expectation return. Realization return is the return that has happened, while expectation return is the return that has not happened but it is expected to occur in the future (Jogiyanto 2014: 235).

In general, the return received by investors is divided into two types, namely capital gain/loss and yield. Capital gain/loss is the difference between the present price of investment and the previous price of investment. If the present price of

investment is higher than the previous price of investment, this means that there is capital gains, and vice versa. Yield is the percentage of periodic cash receipts for a certain period of investment price of an investment. Yield is usually accepted in the form of cash or cash equivalents that can be cashed quickly, such as dividend (Jogiyanto 2014: 236).

### **Managerial Ownership**

Managerial ownership is the proportion of shareholders from the management that actively participate in making company decision (Diyah & Widanar 2009). Managerial ownership makes the position between managers and shareholders able to be aligned, so that management plays an important role in running the company, because management not only manages the company but also acts as shareholders.

The existence of management that also acts as shareholder will be able to reduce the agency conflicts that occur in the company. Management will be responsible for all activities that have been done by way of making disclosure in the financial statements in truth, and will be more effective in monitoring the activities of the company.

### **Institutional Ownership**

Institutional ownership is the ownership of the company's stock that is majority owned by external companies such as institutions (insurance companies, banks, investment companies, asset management and other institutional ownership) (Diyah & Widanar 2009). If a company has a large institutional ownership, the largest shareholder in the company is held by institutional parties, so that all activities of the company management are monitored by the shareholders.

### **Investment Risk**

Investment risk is a condition that occurs because of the uncertainty in investment that can cause different results from what is expected. Halim (2005: 4) suggested that investment is the placement of the number of funds at this time with the hope to make a profit in the future.

According to Jogiyanto (2014: 130), the investment risk in investment management is divided into two:

#### **1. Systematic Risk**

Systematic risk is a risk that cannot be eliminated by making diversification, because fluctuation in this risk is influenced by macro factors that can affect market in overall, such as changes in interest rates, inflation rates, foreign

exchange rates and government policies. This risk is common and applies to all stocks in the stock market concerned.

#### **2. Unsymmetrical Risk**

Unsymmetrical risk is a risk that can be eliminated by making diversification, because this risk only exists in a particular company or industry. The degree of fluctuation in this risk varies from one stock to another. The difference then makes each share has a different level of sensitivity to any changes in the market, such as factors of capital structure, asset structure, liquidity and profitability. Portfolio management states that the company's risk can be minimized by diversifying investments in many types of securities.

The level of investment risk variable on the company's stock is measured using the standard deviation.

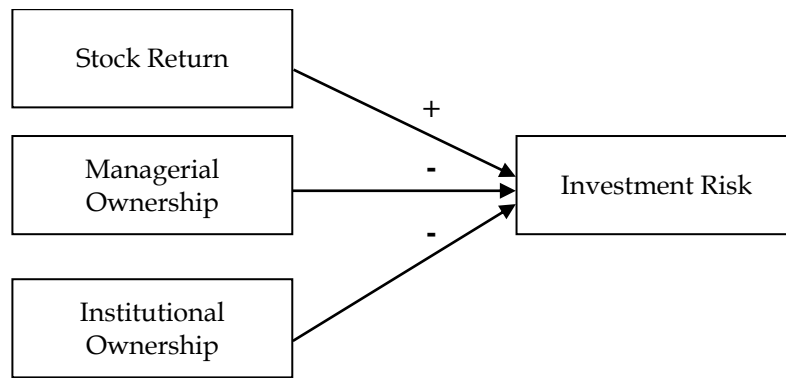
### **The Effect of Stock Return on the Investment Risk**

Return is the level of profits or results obtained from investing activities. In making investment decisions, the investor should not only take into account the rate of return, but also consider the level of risk and choose the most efficient investment opportunities (Husnan 2005: 39). In investing activities, if the investor wants to have higher return, he will have to do bigger sacrifice in accordance with the level of return expected. The bigger sacrifice will then lead to a higher risk. So it can be concluded that the higher the return, the higher the risk. This is in line with the research conducted by Siti, Julenah, and Chudori (2011) that stock return affects investment risk.

### **The Effect of Managerial Ownership on Investment Risk**

Managerial ownership shows the dual role of the management, in which the board of directors also acts as the shareholders. The dual role that occurs because of the managerial ownership can reduce the agency conflicts. Agency conflicts usually occur between two parties, the principal and the agent, in which each party seeks to maximize its own benefit.

The company that has managerial ownership can avoid agency conflict because those who manage the company as well as the shareholders have the same goal. They do not want the company in a state of financial distress and even bankruptcy. The company that has such decision-making and execution in the operation can run better, in



**Figure 1**  
**Framework of the Research**

accordance with the needs and wishes of the company. The company that has good governance can reduce the risks that may occur in the company. So, the investors who invest in the company will possibly experience a lower risk in their investment. The possibility of failure experienced by investors in investing in the company is smaller. This is in line with the research conducted by Tendy (2008) stating that the variable of ownership structure has a negative effect on the risk occurring because of the investment.

#### **The Effect of Institutional Ownership on Investment Risk**

Institutional ownership is the ownership of company's share, which is majority owned by external parties such as institutions (insurance companies, banks, investment companies, asset management and other institutional ownership) (Diyah & Widanar 2009). If a company has a large institutional ownership, the largest shareholder in the company is held by institutional parties, so that all activities of the company's management are monitored by the shareholders. Due to the monitoring, the management will then disclose more information which is useful for the stakeholders.

In publishing its financial statements, the company reports the information related to the actual condition of the company more transparently. This is very profitable for the investor because the investor can find out the good and bad companies to be invested. The possibility of failure in investment carried out by the investor is smaller, and the investment risk faced by investors is on the wane. This is in line with the research conducted by Tendy (2008) stating that the ownership structure has a negative effect on the risk occurring due to the investment.

Based on the description above, the hypothesis that can be put forward is follows:

H<sub>1</sub> = Stock return has positive effect on investment risk,

H<sub>2</sub> = Managerial ownership has negative effect on investment risk,

H<sub>3</sub> = Institutional ownership has negative effect on investment risk.

The theoretical framework of this study is shown in Figure 1.

### **3. RESEARCH METHOD**

#### **Sample Classification**

The population consists of manufacturing companies listed on the Indonesian Stock Exchange (IDX) 2011-2013. The analysis technique used in sampling is purposive sampling technique, the choice of sampling based on certain criteria. The criteria used in this study are:

1. Manufacturing companies that are listed on IDX and issue as well as publish their financial statements from 2011 to 2013 respectively.
2. Manufacturing companies that use IDR currency in their financial statements.
3. Manufacturing companies that have more complete data as required in this study from 2011 to 2013.

Of the 152 manufacturing companies listed on IDX from 2011 to 2013, there are only 101 companies that meet the criteria every year. This study was conducted in three years, the sample used in this study consist of 303 data samples.

#### **Data of the Research**

The data used are considered quantitative data. They consist of numbers, which can be done, in a variety of mathematical operations. The source of data in this study is secondary data source which is not directly obtained from the source. The data collection technique used is the technique of documentation by quoting or analyzing the company's financial statements. The data in this study can be

obtained through the Indonesian Capital Market Directory (ICMD), Indonesian Stock Exchange (IDX), and a website on the capital market.

### Operational Definition of Variable

#### Investment Risk

Investment risk is a condition that occurs because of the uncertainty in investment, which can make the result different from what is expected. So, to calculate the risk is using the standard deviation, a deviation between the realization return and the expectation return. The level of investment risk variables on the company's stock is measured using the standard deviation. The equation is as follows (Sugiyono 2007: 42):

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (R_{mti} - R_{mt})^2}{n - 1}} \quad (1)$$

Description:

$R_{mti}$  = Market return of the  $i$  data

$R_{mt}$  = Average market return

$n$  = Number of months

While market return can be calculated using the following equation:

$$R_{mt} = \frac{JCI_t - JCI_{t-1}}{JCI_{t-1}} \quad (2)$$

Description:

$R_{mt}$  = Market return data

$JCI_t$  = Jakarta Composite Index in the  $t$  year

$JCI_{t-1}$  = Jakarta Composite Index in the  $t-1$  year

#### Stock Return

Return is the profits or results obtained from investing activities. Return can be in the form of realization return or expectation return (Jogiyanto 2014: 235). The stock returns can be calculated using the formula (Jogiyanto 2014: 237):

$$\text{Return } (R_t) = \frac{P_t - P_{t-1}}{P_{t-1}} \quad (3)$$

Description:

$R_t$  → Stock return on the  $t$  day

$P_t$  → Closing price on the  $t$  day

$P_{t-1}$  → Closing price on the  $t-1$  day

#### Managerial Ownership

Managerial ownership is the proportion of shareholders from management that actively participate in making company decision (Diyah & Widanar 2009). Managerial ownership can be expressed using the following formula:

$$\text{Managerial Ownership} = \frac{\sum \text{Stock Owned by Board of Directors}}{\sum \text{Stock Outstanding}} \quad (4)$$

#### Institutional Ownership

Institutional ownership is the ownership of the company's stock that is majority owned by external parties such as institutions (insurance companies, banks, investment companies, asset management and other institutional ownership) (Diyah & Widanar 2009). Institutional ownership can be expressed using the following formula:

$$\text{Institutional Ownership} = \frac{\sum \text{Stock Owned by Institution}}{\sum \text{Stock Outstanding}} \quad (5)$$

#### Analysis Tools

The data analysis technique is the activity to process the data collected for the sake of the analysis discussion. The data analysis technique used in this research is the multiple regression analysis which is tested using SPSS (Statistical Product and Service Solution) software version 16.0, that has a function to analyze the data and to perform both parametric and non-parametric windows-based statistical calculations (Imam 2013 : 15).

The steps used in this research are:

1. Collecting the data (financial statements of the companies listed on IDX 2011-2013 in accordance with the criteria set.
2. Tabulating the data related to the measurement of stock returns, ownership structure and investment risk.
3. Developing the research models

$$RISK = a + \beta_1 R_t + \beta_2 KM + \beta_3 KI + e \quad (6)$$

Where:

$RISK$  = Investment risk

$a$  = Constant regression equation

$\beta_{1,2,3}$  = Regression coefficient for each variable

$R_t$  = Stock return

$KM$  = Managerial Ownership

$KI$  = Institutional Ownership

$e$  = error.

4. Testing the research hypothesis
5. Determining the criteria for the rejection of the hypothesis, with the significance probability  $H_0 < 0.05$ .
6. Conducting the Classical Assumption Test
  - a. Normality Test
  - b. Multicollinearity Test
  - c. Autocorrelation Test
7. Conducting the Statistical F Test
8. Conducting the Determinant Coefficient ( $R^2$ )
9. Conducting the Statistical t Test.

## 4. DATA ANALYSIS AND DISCUSSION

### Research Result

The test results are statistically summarized by the researchers as shown in the Table 1. Table 1 is a

**Table 1**  
**Summary of Regression Test**

No.	Regression Test	Dependent Variable	Independent Variable	Value		Remark
				F count/value B/R square	Sig/Adj. R square	
1	Statistics Test F	Investment Risk	Stock Return, Managerial Ownership, Institutional Ownership	2.862	0.037	Has significant effect (Model is good/fit)
2	Determinant Coefficient	Investment Risk	Stock Return, Managerial Ownership, Institutional Ownership	0.028	0.018	Dependent Variable can be explained by Independent Variable
3	Statistics Test t	Investment Risk	Stock Return	0.022	0.004	Has positive significant effect
			Managerial Ownership	-0.007	0.591	Has no effect
			Institutional Ownership	0.001	0.731	Has no effect

Description :  $\alpha = 0.05$  significant.

Source : Processed SPSS, Researchers' Summary.

summary of the test results of the effect of stock returns and ownership structure on the investment risk. Based on the summary above, when tested using the statistic test F, it shows that the value of F count is 2.862, with a significance level of 0.037. It can be concluded that the regression model is good (fit) and can predict the investment risk of the companies listed on the Indonesian Stock Exchange (IDX)). In addition, it can also be said that the stock return and the ownership structure simultaneously affect the investment risk.

However, based on the determinant coefficient test, it indicates that the value of Adjusted R Square is 0.018 or equal to 1.8%. This means that the dependent variable of this study, or investment risk, can be explained by the independent variables, or stock return and ownership structure, i.e. 1.8%, while the remaining 98.2% is explained by other variables and other models out of the independent variables studied. In addition, the results of statistical test t to indicate whether there is an effect or not on the relationship between the dependent and independent variables are as follows:

#### **The Effect of Stock Return on the Investment Risk**

Return is the level of profit or result obtained from investing activities. The result of statistical test t for the variable of stock return shows that the value of t count is 2.881 with a significance level of 0.004 which is less than 0.05. It can be concluded that  $H_{01}$  is rejected, which means that stock return has posi-

tive effect on investment risk.

The results show that stock return has positive significant effect on investment risk. It proves that in making investment decisions needs to consider not only the rate of profit (return), but also the level of risk and to choose the most efficient investment opportunities (Husnan 2005: 39). In the investment, if the investor wants the higher return, the investor will do a big sacrifice in accordance with the level of profit or return expected. The big sacrifice will lead to a higher risk. Thus, it can be concluded that the higher the return, the higher the risk.

The researchers' initial assumption concerning the positive effect on the relationship between the stock returns and the investment risk is correct. This is in line with the research conducted by Siti, Julenah, and Chudori (2011) stating that the stock return affects the investment risk. In addition, based on the statement of Jogiyanto (2014: 257), return and risk have a positive relationship, the higher the return earned, the higher the risk faced by the investors. It can also be supported by the data obtained by the researchers, which show that PT Lionmesh Prima Tbk (LMSH) has the highest rate of stock return in 2012, or 0.89667 and also has a high level of risk in the same year. While PT Fast Food Indonesia Tbk (FAST) has the lowest rate of stock returns in 2013, or 0.08455 and also has a low level of risk in the same year.

So, it can be concluded that stock return is one of the factors that may affect the risk which will likely be experienced by investors in investing.

Stock return has a significant positive effect on the investment risk. If the investor wants a high return, he will possibly also face a high risk.

### **The Effect of Managerial Ownership on Investment Risk**

Managerial ownership is the proportion of shareholders from the management party that actively participates in making the company decision (Diyah & Widanar 2009). The result of statistical test  $t$  for the variables of ownership structure in managerial ownership indicates that the  $t$  count value is -0.0538 with a significance level of 0.0591, which is greater than 0.05. It can be concluded that the  $H_{01}$  is accepted, which means that managerial ownership has no significant negative effect on the investment risk.

The result shows that managerial ownership has no significant effect on investment risk. This research is in line with the research conducted by Siti, Julenah, and Chudori (2011), and in contrary to the research conducted by Tendy (2008). This difference is likely due to the different year of the study.

It can also be supported by the data obtained by the researchers which show that PT Hanson International Tbk (MYRX) has the highest level of managerial ownership in 2013, i.e. 0.4828 or 48.28%, and it is proved to have a low risk level in that year, 0.01584. In addition, there are still a lot of companies that do not have managerial ownership but they have a high level of investment risk, such as PT Akasha Wira International (ADES) that does not have managerial ownership but it has a high level of investment risk, i.e. 0.04568. This shows that there is indeed a negative relation between managerial ownership and investment risk, but there is no significant effect on both. Managerial ownership is not a factor affecting the size of the level of investment risk experienced by investors.

Ownership structure in managerial ownership is not the variable that can affect the investment risk. This means that the dual role of the management, that is the board of directors acting also as the shareholder, simply take an active role as the board of directors, and not to participate actively in making the company decision. So it can neither make the company condition/corporate governance better nor reduce the risks that may occur in the company or the risks that may be experienced by investors.

In addition, the absence of the effect of managerial ownership on the investment risk is also caused by the level of managerial ownership in

companies listed on the Indonesian Stock Exchange that has not been used optimally. The managerial ownership in the company is very low. This is consistent with the statement of Teshima & Shuto (2008) that divides the managerial ownership into two groups, namely alignment and entrenchment. Alignment is a low level of managerial ownership in a company, in which the condition is only used to increase the stock ownership presentation. While entrenchment is a high level of managerial ownership in a company and actually has a dual role, as the board of directors as well as the shareholders. The other causes are because of the purpose of managerial owners who generally have a long-term goal in investing, while, in the present study, the calculation of investment risk made by the managerial owners is just measured in a relatively short period of monthly or short-term. So it is considered less and cannot even see the development of the effect of managerial ownership on investment risk.

Thus, it can be concluded that managerial ownership is not one of the factors that can affect investment risk. Managerial ownership does not have a significant negative effect on the investment risk. Investors cannot see the size of the risk to be experienced in investing only from the standpoint of managerial ownership structure of a company.

### **The Effect of Institutional Ownership on Investment Risk**

Institutional ownership is the ownership of the company's shares that is majority owned by external companies such as institutions (insurance companies, banks, investment companies, asset management and other institutional ownership) (Diyah & Widanar 2009). The result of statistic test  $t$  for the variable of ownership structure in institutional ownership indicates that the value of  $t$  count is 0.344 with a significance level of 0.731, which is greater than 0.05. It can be concluded that the  $H_{01}$  is accepted, which means that institutional ownership has no significant negative effect on investment risk.

The result shows that institutional ownership has no significant negative effect on investment risk. This research is in line with the research conducted by Siti, Julenah, and Chudori (2011), and in contrary to the research conducted by Tendy (2008). This difference is likely due to the different year in the study.

It can also be supported by the data obtained by the researchers, which show that PT Bentoel International Investama Tbk (RMBA) has the highest level of institutional ownership during 2011-



2013, i.e. 0.98958 or 98.958% and proved to have a high level of risk in the year. This shows that there is a negative relationship between institutional ownership and investment risk, even a positive relationship, but still there is no significant effect on both. Institutional ownership is not a factor affecting the size of the level of investment risk experienced by investors.

Ownership structure in institutional ownership is not the variable that can affect the investment risk. This means that the company that has a large institutional ownership does not make the company more transparent in reporting information relating to the actual condition of the company. This is because the ownership of company in Indonesia is still in doubt. Not all institutional ownership is actually owned by external companies such as institutions (insurance companies, banks, investment companies, asset management and ownership of other institutions), but owned by the same shareholders, with the different name of company, so as to make the level of institutional ownership becomes high. In addition, it can also be owned by an internal party who dared to use the company name Ltd. or so. Therefore, the monitoring by the shareholders (the owners of institutional ownership) cannot be carried out to the maximum so that the management can freely disclose information to stakeholders.

Therefore, it can be concluded that institutional ownership is not one of the factors that can affect investment risk. Institutional ownership does not have a significant negative effect on the investment risk. Investors cannot see the risks that would be experienced in investing only from the standpoint of institutional ownership of a company.

## 5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

In general, it can be concluded as follows:

1. The result of statistic test F shows that the regression model is good (fit) and can predict the investment risk in manufacturing companies listed on IDX. In addition, it can also be said that stock return and ownership structure simultaneously affect the investment risk.
2. The result of determinant coefficient ( $R^2$ ) shows that the dependent variable that is investment risk can be explained by the independent variables, or stock return and ownership structure but it is very weak in explaining it.
3. The result of multiple regression analysis of the statistic test t shows:
  - a. The variable of stock return has significant

positive effect on investment risk.

- b. The variable of ownership structure in managerial ownership has negative effect but not significant on investment risk.
- c. The variable of ownership structure in institutional ownership has no significant negative effect on investment risk.

The researchers realize that this research still needs some further studies for producing a better result. This is due to some limitations caused by several factors, such as:

1. The sample consists of only manufacturing companies listed on IDX 2011-2013. Thus, it cannot generalize all go public companies listed on IDX with a long enough period.
2. The value of Adjusted  $R^2$  is lower than the test result, or only 1.8%. This means that the independent variable in this study may explain the dependent variable but very weak.
3. The variable of investment risk in this study is using measurement for months, so that the possibility of investment risk that is experienced by investors has not been seen accurately.

Due to some limitations, further research can be done by developing the data much more than this study and strengthening the results of this study based on some required considerations. Therefore, the suggestions for further studies can be as the following.

1. Further studies are expected to take the sample as a whole and not just limited to manufacturing companies as well as to extend the observation period to obtain more complete data with greater number of samples.
2. Further studies are expected to include new variables in the study that are not confined to the variables that have been used in this study or the previous studies that are estimated to have more influence on the investment risk.
3. Future researches are expected to measure the progress of investment risk in the daily period, so that the possibility of investment risk experienced by investors can be seen accurately.

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