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Article

The Effect of Managerial Ownership on the Financial Performance of MSMEs: A Profitability Enhancement Perspective

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Abstract: This study aims to analyze the effect of managerial ownership on the financial performance of MSMEs in Pacitan, especially in increasing profitability. By using a quantitative quantitative approach, data from 113 MSMEs was analyzed through the simple linear regression method. method. The results showed that managerial ownership has significant influence on financial performance, with a value of R=0.645R=0.645 and R2=41.6%R^2 = 41.6%. This means that about 41.6% of the variation in the financial performance of MSMEs is explained by the level of managerial ownership. This finding suggests that managers who also own shares tend to make strategic decisions that increase efficiency and profitability. However, 58.4% of the variation in MSMEs' financial performance is influenced by other factors such as access to capital, operational efficiency, and managerial capability. In the context of context of MSMEs in Pacitan, these results provide an important foundation for designing more effective management strategies. The findings have practical implications for local government, financial institutions, and MSME players in optimizing ownership structure to improve competitiveness. By understanding the role of managerial ownership, MSMEs are expected to be more competitive in local and regional markets. This research highlights the importance of an integrated approach in management of MSMEs to support business growth and sustainability.

Keywords: Ownership, Managerial, Financial Performance, MSME, Profitability

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1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) play an important role in supporting the economy, both at the local and national levels. MSMEs are recognised as a sector capable of creating jobs, stimulating innovation, and driving economic growth. In addition, MSMEs also serve as a pillar of the local economy that is adaptive to dynamic market changes. In many countries, MSMEs contribute to improving the welfare of local communities through labour absorption and income generation. With these various roles, MSMEs are able to significantly drive the economy. Therefore, it is important to understand the factors that influence the financial performance of MSMEs in an effort to improve their competitiveness in the market.

One of the factors that affect the financial performance of MSMEs is managerial ownership. Managerial ownership refers to the proportion of shares owned by managers or direct owners in the company. Research shows that managerial ownership can encourage more efficient business management, because managers or owners have direct involvement in the company's performance results. This motivates businesses to optimise financial performance and achieve better results. In the context of MSMEs, understanding the direct impact of managerial ownership on profitability is crucial. This knowledge is expected to help MSMEs improve competitiveness and business sustainability amidst intense market competition.

Ownership by management in a company refers to the shares owned by individuals or groups who are directly involved in managing the company. Meanwhile, managerial ownership has a positive effect on company performance [1]. In the Micro, Small and Medium Enterprises (MSME) sector, this ownership often has an important impact on the company's ability to achieve optimal financial performance. This is particularly evident in efforts to increase profits generated from operational activities. This study was conducted to explore the relationship between managerial ownership and the financial performance of MSMEs, with an emphasis on the effectiveness of profitability strategies. Through in-depth analysis, it is expected to find patterns or mechanisms that explain the influence of such ownership on business success. The findings are expected to contribute to further understanding of managing MSMEs more effectively and competitively.

Financial performance is an important aspect in assessing the success of a business, including MSMEs. Good financial performance reflects efficiency and effectiveness in the management of assets and resources owned. Profitability is one of the main indicators in assessing the financial performance of companies, including MSMEs, because it illustrates the ability of businesses to generate profits. For MSMEs, profitability is an important benchmark to ensure sustainability and competitiveness in the market. Research on the effect of managerial ownership on MSME profitability will provide valuable insights for small business management. The results are expected to assist MSMEs in improving financial performance and achieving sustainable growth objectives.

In Pacitan, the potential for MSMEs is huge as the region has abundant natural resources, especially in the agriculture and fisheries sectors. Many MSMEs in Pacitan are engaged in processing natural products, such as processed foods, handicrafts and seafood-based products. However, MSMEs in the region still face various challenges, ranging from limited access to capital to limited managerial skills. These challenges affect MSMEs' ability to compete with cheaper imported products. A deeper understanding of managerial ownership in Pacitan can provide insights into the potential for improving the profitability of local MSMEs.

While there has been a lot of research on MSMEs, especially on ownership structure and financial performance, there is still a knowledge gap in this sector. Most studies focus on large enterprises rather than MSMEs, even though MSMEs have unique dynamics. In Pacitan, for example, gender roles are also an important factor in the ownership and management of MSMEs. This study focuses on the direct relationship between managerial ownership and financial performance. However, this study does not consider moderation of gender roles in its analysis. Thus, this study is expected to fill the research gap and provide a new perspective on MSMEs. Referring to [2], [3], [4], [5], it is known that managerial ownership has a positive impact on financial performance. However, different findings were revealed in the study of [6], where their results showed that managerial ownership did not have a significant effect on financial performance.

The formulation of the problem in this study is how managerial ownership affects the financial performance of MSMEs in Pacitan in the perspective of increasing profitability. Furthermore, it aims to analyse the effect of managerial ownership on the financial performance of MSMEs in Pacitan, with a focus on increasing profitability. By understanding the relationship, it is hoped that local governments, financial institutions and business people in Pacitan can formulate more effective policies and strategies. An in-depth understanding of the impact of managerial ownership on the financial performance of MSMEs is expected to be a valuable contribution to local economic development. In addition, this research is expected to improve the competitiveness of MSMEs in Pacitan through more targeted policies. Then provide academic contributions in the fields of management and economics, provide insights that can support the improvement of the competitiveness of local MSMEs, and help formulate policies that support the sustainability of MSMEs. The results of this study are also expected to be the basis for programmes that support local economic growth and improve community welfare through the development of competitive MSMEs in Pacitan. The results of this research can form the basis for the preparation of programmes that support the sustainability and advancement of local MSMEs. As such, this research has the potential to provide long-term benefits to the Pacitan economy.

2. Materials and Methods

This research uses a quantitative approach with descriptive methods to analyse the relationship between managerial ownership and the financial performance of MSMEs in the perspective of increasing profitability. Sugiyono explains that quantitative research is a research approach based on certain populations or samples [7] . Data is collected through research instruments, then analysed quantitatively or statistically to test predetermined hypotheses. The research population is MSME players in the culinary and trade sectors. The sampling technique used purposive sampling method. According to [7], purposive sampling is a sample selection technique based on certain considerations that are in accordance with the relevant criteria for research. The sampling criteria in this study were determined by the researcher to determine the number of samples to be used, namely 113 MSMEs. Data analysis includes: Validity and Reliability Test using Pearson Product Moment and Cronbach Alpha to ensure data accuracy, descriptive analysis describing the characteristics of respondents based on age, gender, length of business, and line of business, classic assumption test: Includes normality, multicollinearity, and heteroscedasticity tests and simple linear regression which examines the effect of managerial ownership on the financial performance of MSMEs and can answer the hypothesis.

3. Results

Table 1: Respondent description.

Category	Sub-Category	Total	Percentage (%)
Gender	Female	66	58.4
Male	47	41.6	
Age	21-30 years	37	32.7
31-40 years	48	42.5	
41-50 years	28	24.8	
Length of Business	1-3 years	28	24.8
4-6 years	47	41.6	
7-10 years	38	33.6	
Line of Business	Culinary	75	66.4
Trade	38	33.6	
Turnover (per year)	IDR 30,000,000 – IDR 70,000,000	37	32.7

IDR 70,000,001 – IDR 150,000,000	48	42.5
IDR 150,000,001 – IDR 300,000,000	28	24.8

A. Regression Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.645[a]	.416	.411	.635	1.931

a. Predictors: (Constant), Ownership

b. Dependent Variable: Financial performance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	31.944	1	31.944	79.180	.000[b]
	Residual	44.782	111	.403		
	Total	76.726	112			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Ownership

R: The correlation value between the independent variable (Managerial Ownership) and the dependent variable (Financial Performance). The value of R = 0.645 indicates a strong and positive relationship between the two variables.

R Square (R^2) value: 0.416 indicates that 41.6% of the variation in MSME Financial Performance can be explained by Managerial Ownership. The remaining 58.4% is explained by other variables not included in the model. Sum of Squares or Total variation in Financial Performance is 76,726, with 31,944 coming from the regression (independent variables) and 44,782 from the residuals (errors or other variables).

The F-statistic value of 79.180 indicates the overall strength of the regression model. This value is significant at the p=0.000 level, which is far below 0.05. This means that the regression model is statistically significant in explaining the relationship between Managerial Ownership and Financial Performance. Therefore, the positive regression coefficient on the independent variable supports the hypothesis that managerial ownership has a positive influence on the financial performance of MSMEs..

MSMEs are an important sector in the local economy that contributes to job creation and economic growth. However, many MSMEs face challenges in managing their financial resources efficiently. One important aspect that contributes to the financial performance of MSMEs is the level of management involvement in company ownership. Based on the results of research [8] it shows that managerial ownership has a positive effect on financial performance. So this study identifies the direct relationship between managerial ownership and financial performance in the perspective of MSME profitability.

The results showed that Managerial Ownership has a significant influence on the Financial Performance of MSMEs. This is reflected in the R value of 0.645 which shows a strong and positive relationship between the two variables. With a R2 value of 41.6%, it can be concluded that almost half of the variation in MSME financial performance can be explained by the level of managerial ownership. This finding indicates that the higher the ownership owned by managers, the greater the motivation to improve the efficiency of financial management. This research is relevant to agency theory, which emphasises the importance of unifying interests between managers and owners to reduce conflicts.

The positive effect of Managerial Ownership on Financial Performance is reflected in the significance of p=0.000. This value indicates that the effect does not occur by chance and is significant at the 95% confidence level. MSMEs managed by owner-managers tend to be better able to make strategic decisions that support business sustainability. This is in line with the literature which states that managers who own shares have a greater incentive to increase productivity. Thus, these results support the argument that managerial ownership is an effective governance mechanism in improving MSME profitability.

In addition, the R2 value of 41.6% indicates that there are other factors beyond Managerial Ownership that affect the Financial Performance of MSMEs. Such factors may include access to capital, technology or managerial capacity. This indicates that while managerial ownership is important, other strategies are also needed to optimise financial performance. In the context of MSMEs in Pacitan, this result is relevant as many small businesses in the region face challenges in terms of access to resources. Therefore, supporting policies such as managerial training and improved access to capital may complement the positive influence of managerial ownership.

Durbin-Watson of 1.931 indicates the absence of autocorrelation, which means that the residual data does not have a certain pattern. This indicates that the regression model used is valid enough to explain the relationship between variables. This stable model provides a strong basis for concluding that managerial ownership contributes to improved financial performance. For MSMEs in Pacitan, the stability of this model can be translated into the belief that increased managerial involvement in ownership can result in better financial outcomes. With these results, MSMEs can be more confident in integrating managerial ownership strategies into business management.

However, this study also reveals the limitations of the model used, where 58.4% of the variation in financial performance is not explained by managerial ownership. This suggests the need for further research to identify other variables that contribute to the financial performance of MSMEs. For example, external factors such as regulation, market conditions and competitive pressures may play a significant role. In the documents provided, it is mentioned that limited access to capital and technology are the main obstacles for MSMEs in Pacitan. Therefore, MSME development efforts should involve a holistic approach that includes improving both external and internal resources.

This study provides important implications for local governments, financial institutions, and MSME players. The government can use these results to design managerial training programmes that emphasise the importance of share ownership by managers. Financial institutions can also consider providing access to capital by considering managerial ownership structure as one of the indicators. MSME players, on the other hand, can evaluate their ownership structure to improve business efficiency and competitiveness. With relevance to the local context in Pacitan, these results are expected to have a long-term impact in the development of MSMEs. A combination of internal and external strategies is key to ensuring the sustainability and growth of MSMEs in the region.

4. Discussion

A. Managerial Ownership

Managerial ownership is a condition in which the company manager also has shares or ownership in the company, so that the manager's role is also the owner. Based on Jensen & Meckling, (1976) in [9] has a definition, namely share ownership by managers or directors of the company. Managerial ownership can increase manager motivation and commitment. Managers who own shares will be more orientated towards the interests of the company. This is in accordance with Agency Theory. Managerial ownership can also reduce agency conflicts. Managers will be more responsible. With this ownership, managers have a greater incentive to improve company performance because they also feel the direct financial benefits of the company's success. According to [10] ownership structure involving management has a real impact on company performance, which is evaluated using indicators such as ROE, Tobin's Q Ratio, and CSARR. The separation of ownership among management is important, given that each group of shareholders tends to have non-uniform motivations and financial incentives. By having a role and share in management, it can improve the alignment between company goals and managers' interests. In the context of MSMEs, managerial ownership plays an important role due to limited external supervision, so the role of owners who are also managers determines the success of the company. Thus, it can be analysed that managerial ownership has an impact on the financial performance of MSMEs, especially in terms of profitability.

Managerial ownership analysis has a positive influence on financial performance [11]. Firm performance is a determinant of management ownership, with increased sensitivity to managerial ownership. Managerial ownership leads to significant and prominent improvements in firm performance, especially for firms with severe agency problems and weak alternative governance mechanisms [12]. Managerial ownership refers to a situation where the managers of a company are also shareholders in the company. In this context, managers are not only responsible for the management of the company, but also have a financial interest in the company's performance. According to Downes and Goddman (2010) in [13], managerial ownership means that shareholders who also act as active managers in company decision making. So in the understanding of the manager above, if seen from the point of view of umkm, especially the micro scale, the manager is actually the owner and runs the business.

Jensen (1986) in [13] states that the greater the proportion of management ownership, the greater the possibility of uniting the interests between managers and shareholders. This is important because in agency theory, there is a potential conflict of interest between managers (agents) and shareholders (principals). With significant managerial ownership, it is expected that managers will be more motivated to act in the interests of shareholders, thereby reducing agency costs that may arise due to these differences in interests. Managerial ownership can be a tool to strengthen managers' commitment to the company and improve the quality of decision making. A study conducted by Shleifer and Vishny (1997) in [14] shows that managers who own shares in the company tend to make decisions that are more long-term orientated and aim to increase company value. This is closely related to the manager's trust in the company and expectation of future profits. For MSMEs, this aspect is important because the decisions made by owner-managers will directly affect the sustainability and profitability of the company. So, the higher the managerial ownership, the higher the manager's motivation to improve the company's financial performance is expected. With managerial ownership, managers can manage the business better, which has a positive impact on financial performance [2].

The effect of managerial ownership on financial performance cannot be separated from the concept of agency theory which focuses on the relationship between owners and managers of the company. According to the agency theory described by Fama and Jensen (1983) in [15], the separation of ownership and control can lead to agency problems, especially in terms of agency costs. Managerial ownership is believed to reduce these agency costs because managers have an incentive to act in the best interests of the company. This is more relevant in MSMEs, where owners often also act as managers, so agency costs can be significantly reduced. Therefore, managerial ownership is considered an effective mechanism to overcome agency problems in improving financial performance.

Managerial ownership has a positive impact on company performance (Jensen & Meckling, 1976) in Kepemilikan manajerial berdampak positif pada kinerja perusahaan (Jensen & Meckling, 1976) dalam [16]. Managerial ownership can increase manager motivation and commitment. This has an impact on improving financial performance. Managerial ownership can also reduce agency conflicts. Managers will be more responsible. Managerial ownership can also increase innovation. However, managerial ownership has limitations (Fama & Jensen, 1983) [17]. Managerial ownership is not always effective. Other factors such as corporate culture and supervisory systems also influence. Managerial ownership cannot solve all problems. These limitations must be considered in decision-making. Managerial ownership must be combined with other strategies. Factors Affecting Managerial Ownership: Factors that influence managerial ownership include: company size, industry type, and level of competition (Jensen & Meckling, 1976) [16]. These factors influence managers' decision to own shares. These factors also affect the optimal level of ownership. Understanding these factors is important to improve performance.

Measurement of Managerial Ownership: Measurement of managerial ownership can be done through several indicators (Morck et al., 1988) [16]. These indicators include: the percentage of shares owned by managers, the number of shares owned by managers, and the level of managerial ownership. This measurement is important to determine the optimal level of ownership. Measurement also helps in performance evaluation. In addition, [18] show that managerial ownership can increase the competitiveness of MSMEs through increased operational efficiency and better resource management. Based on Shleifer, and Vishny (1997) in [16], managerial ownership can strengthen the competitiveness of the company, because managers have greater incentives to maintain company performance amid market competition. In the context of MSMEs, managerial ownership enables fast and flexible decision-making, which is needed in the face of market uncertainty. This speed and flexibility are key in maintaining the competitive position of MSMEs amidst limited resources. Thus, managerial ownership can serve as a strategy in improving the competitiveness of MSMEs in local and global markets.

In the end, the existence of managerial ownership is expected to not only improve financial performance but also create long-term value for the company. Studies by Demsetz and Lehn (1985) [19] show that a firm's ownership structure, including managerial ownership, plays an important role in creating firm stability and sustainability. In the context of MSMEs, this ownership structure allows managers to develop sustainable strategies and focus on long-term growth. For MSMEs in Pacitan, for example, managerial ownership is expected to help in creating a solid foundation for sustainable growth and facing competition. Thus, this study seeks to provide an in-depth understanding of the importance of managerial ownership in driving the financial performance and growth of MSMEs.

B. Financial Performance

According to Fahmi (2014: 2) in [20], financial performance or financial performance is an analysis that aims to assess and determine the extent to which the company has complied with and implemented financial norms effectively and accordingly. This analysis is important because it provides an overview of the company's ability to manage its financial resources. By measuring financial performance, companies can evaluate whether the policies and strategies taken have run in accordance with the expected goals. In addition, the results of this analysis also help stakeholders, such as investors, creditors, and management, in making decisions based on the company's financial condition. The assessment of financial performance not only includes the observation of the numbers in the financial statements, but also involves testing the company's compliance with applicable rules. Therefore, financial performance analysis becomes an important tool to ensure that the company remains on a financially sound path.

Financial performance measures the effectiveness and efficiency of a company in managing its resources, [21] states that the profitability ratio is a measuring tool used to evaluate the extent to which a company is able to generate profits during a certain period profitability is a key indicator of financial performance that reflects the company's ability to generate profits. In MSMEs, profitability is not only a measure of success but also determines competitiveness in the market. Previous studies found a positive relationship between managerial ownership and profitability in small businesses. This research provides important insights to understand how managerial ownership affects the financial success of MSMEs.

The importance of in-depth financial analysis in understanding the performance of MSMEs. In addition, factors such as access to capital, operational efficiency and managerial skills affect MSME profitability. Profitability, in this context, is seen as a measure of business sustainability that reflects the ability of MSMEs to maintain operations amid market competition. This factor is important for identifying optimal management strategies for small businesses. According to t [22] financial performance can be measured through several key indicators such as net profit margin, return on assets (ROA), and revenue growth. In MSMEs, these indicators become relevant benchmarks to evaluate the success of business management. The main focus of this research is to understand how managerial ownership influences these variables to create sustainable profitability. In many cases, improvements in financial performance indicators are positively correlated with strategic ownership structures.

Improved operational efficiency plays a major role in increasing MSME profitability. This is supported by the finding that MSMEs with significant managerial ownership tend to have better control over production costs and resource management. In addition, flexibility in decision-making is also a determining factor for financial success. With this understanding, this study attempts to explore more deeply the relationship between managerial ownership and MSME financial performance. The financial performance of MSMEs is measured through financial indicators such as profit, cash flow, and financial ratios. Good financial performance indicates the ability of MSMEs to compete. Financial performance also affects investment decisions. The financial performance of MSMEs must be improved to increase competitiveness. One method that can be done is to assess financial performance through financial statement analysis by utilising various financial ratios [23]. Financial Performance Indicators: MSME financial performance indicators include: profit, cash flow, financial ratios, and cost efficiency. These standardised measures help assess the financial performance of MSMEs. These indicators also help identify the weaknesses and strengths of MSMEs. Analysing these indicators is important for strategy improvement.

Measuring the financial performance of MSMEs can be done through: financial ratio analysis, cash flow analysis, and profit analysis. These measurements help assess the financial performance of MSMEs. Measurements also help identify weaknesses and strengths. The financial performance of MSMEs is influenced by managerial ownership [16]. Managerial ownership can increase manager motivation and commitment. This has an impact on improving financial performance. Managerial ownership can also reduce agency conflicts. An effective business strategy can improve financial performance. Business strategy also affects investment decisions. Understanding business strategy is important to improve performance. A stable business environment can improve financial performance. The business environment also affects investment decisions. Understanding the business environment is important to improve performance.

According to Hery (2016) in [24] explains that financial performance is a formal approach taken to assess the effectiveness and efficiency of the company in generating profits and maintaining a certain financial position. Through measuring financial performance, companies can understand growth opportunities and optimise the use of their resources. For MSMEs, financial performance analysis plays a crucial role as they need to ensure that the business can continue to grow and survive in the market. If their financial performance is poor, MSMEs are at risk of facing liquidity issues and difficulty meeting their debt obligations. Therefore, it is important for MSMEs to closely monitor financial elements such as cash flow, net profit, and debt ratio. Through this, they can detect financial problems early and take immediate steps to address them.

In addition, financial performance analysis helps MSMEs to formulate financial goals, understand business performance, and find opportunities to increase revenue. In addition, financial performance is also the main indicator in evaluating and measuring the company's financial condition based on its ability to generate profits. Good financial performance stability is an attraction for investors to invest, so companies need to ensure this stability is maintained through accurate and transparent financial reports.

Financial performance describes the results of the achievements achieved by the company within a certain period of time, as a reflection of its financial management during that period. With the achievements made, the company can show the extent to which its performance is going well According to [25], there are several objectives of evaluating financial performance, including:

1. Assessing the level of profitability or profitability

The financial performance assessment measures the extent to which the company is able to generate profits during a certain period.

2. Assessing the level of liquidity

This evaluation illustrates the company's ability to meet short-term obligations that must be paid off immediately.

3. Assessing the level of solvency

This assessment indicates the extent to which the company is able to pay off all financial obligations, both short and long term, in the event of liquidation.

4. Assessing business stability

This evaluation highlights the company's ability to pay interest on debt, pay off principal on time, and continue to pay dividends to shareholders.

C. Research Hypothesis

Based on the literature review, the following hypothesis is formulated:

H1: Managerial ownership has a positive effect on the financial performance of MSMEs in Pacitan in the context of increasing profitability.

5. Conclusion

This study confirms that managerial ownership has a significant influence on the financial performance of MSMEs in Pacitan, especially in increasing profitability. This finding suggests that the involvement of managers as owners provides additional incentives to optimise resources and operational efficiency, thereby increasing business profitability. These results support agency theory which highlights the importance of aligning interests between managers and owners in reducing agency conflicts. However, there are other external variables that influence the financial performance of MSMEs, such as access to capital, technological efficiency and market dynamics. In addition, this study makes a significant practical contribution to the development of local government policies and business strategies for MSMEs. With these results, businesses can understand the importance of managerial ownership as a strategy to improve business competitiveness. Government and financial institutions are expected to support MSME development efforts through managerial training and providing better access to capital. Overall, this study confirms the need for an integrated approach to promote the growth and sustainability of MSMEs in Pacitan.

It is suggested that local governments need to develop managerial training programmes to improve understanding of the importance of managerial ownership in MSMEs. Financial institutions are expected to provide access to capital based on ownership structure evaluation. MSME players are advised to evaluate their ownership structure to optimise business efficiency. Further research can expand the scope by considering other variables such as access to technology and market conditions.

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