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Does the Institutional ownership, Return On Asset and Leverage affect Company Value?

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Abstract

This study aims to determine the effect of institutional ownership, return on assets (ROA) and leverage on firm value. Testing is done using secondary data in the form of financial statements of manufacturing companies listed on the IDX. Data were analyzed using Multiple regression with SPSS 24.0. The managerial implication of this research is the large number of institutional ownership can encourage an increase and optimal oversight. A high ROA value will give a positive signal to investors that the company can generate large profits so that it becomes an attraction for investors to own company shares and will increase share prices and have an impact on increasing company value. High leverage becomes a positive signal for the market or potential investors and shows that manufacturing industry companies have applied the concept of trade of theory which means that companies whose capital structure is derived from debt and still benefit, the use of debt is the right alternative. But at some point an increase in debt will reduce the value of the company because the benefits derived from the use of debt are smaller than the costs incurred.

1 Introduction

Maintaining the continuity and value of the company is an important element that must be taken by the company because the company's value is the assessment of investors about the good and bad of companies that assess the level of welfare of their owners (Novari & Lestari, 2016; Chandra & Djajadikerta, 2018). High company value makes investors believe in the prospects in the future that are expected to be seen in stock prices so as to provide wealth to shareholders (Wahyudi, 2013; Astuti et al., 2019). The company's goal is not only to increase shareholder wealth (Lukas loyal Atmaja, 2018) but can also provide benefits to the wider community. (Weston and Copeland, 2010; Ahmad et al., 2018). Investors can use the value of the company as a basis for seeing the company's performance in the coming period, where the value of the company is often discussed with price and reflection.

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Conflicts between managers and shareholders are preferred stockholders of dividends from being reinvested into the company. While on the contrary, managers are more likely to want the profits obtained to be reinvested in order to increase company capital. This argument is closely related to agency theory, managers as agents and shareholders as principals who each have an interest. As a company manager, managers know more about information than shareholders. Shareholders find it difficult to obtain complete information about company operations that lead to information asymmetry (Kumar & vaidya, 2017). This condition has the potential to cause managers as agents to take opportunistic action.

Corporate governance has become a matter of universal consequences (Al-Homaidi et al., 2019). The concept of corporate governance is a topic of international interest and debate because, among other factors, a series of recent corporate failures and the collapse of major economic and financial institutions. In Indonesia, the Toshiba case in 2015, the British Telecom case in 2017, the Karya case in 2009, the Three Pillars of Prosperous Food in 2017 and the Garuda case in 2018 are determinants of weak company management standards. Some of the cases described illustrate that current research is important to do because of the need for good corporate governance even though the potential conflicts of interests of managers and shareholders always occur due to the separation of ownership and management functions (Berle & Means, 1932). Shareholders are interested in maximizing the value of the company, while the manager's goals can also include increasing personal wealth, job security, and prestige (Mak & Li, 2001). Jensen and Meckling (1976) argue that the interests of agents (managers) must be aligned with the interests of principals (shareholders) to resolve principal-agent problems. Shleifer & Vishny (1997) argues that corporate governance can reduce agency problems and provide assurance that the activities of managers concentrate on maximizing corporate value.

The concept of Good Corporate Governance (GCG) explains how the relationship between shareholders, managers and stakeholders. One of the indicators in implementing GCG is Institutional Ownership. In the past these investors were not directly involved in making decisions and following the exit policy by selling shares held by them if they were not satisfied with the policies and management decisions (Tahir et al., 2015). Institutional investors are now emerging as an integral force in equity markets because they are important shareholders and are major players in developed markets and emerging markets (Tahir et al., 2015). According to Lestari, (2017) This study on institutional ownership is interesting to study. Some previous research results still show inconsistent research results such as Sujoko & Soebiantoro (2007), Bjuggren et al., (2007) found that institutional ownership has positive influence on company value. Different results were found by Demsetz & Villalonga (2001), Sofyaningsih & Hardiningsih (2011), who found institutional ownership had no significant effect on firm value.

The Indonesian capital market is an interesting place to examine the impact of institutional ownership on corporate value, because the landscape is different from the capital markets in the United States and most other developed markets. Most companies in Indonesia are registered and controlled by family members, individuals and related people (Ahmad et al., 2018). These characteristics create a bad corporate governance environment where major shareholders can easily take over company resources for their personal gain (Thanatawee, 2014). According to Masdupi (2005) agency problems have the potential if managerial ownership (insider ownership) is less than one hundred percent. According to agency theory, the problem between management and shareholders can be reduced by equating management interests with the hope that decisions made by managers can be felt. direct benefits and conflicts of interest occur because of excess cash flow. Shareholders require high risk investments and high returns, while management chooses low risk investments (Astuti et al., 2019). To this end, several empirical studies of corporate governance have examined the role of various governance mechanisms in corporate performance, assuming company value is the result of this mechanism. Several studies explore the relationship between company performance and ownership (Haniffa & Hudaib, 2006; Gurbuz et al., 2010; Christensen et al., 2010; Najid & Rahman, 2011).

Data in the Sudarma study (2004) shows that companies whose shares are listed on the IDX in 2001, the largest owners are institutional ownership at an average of 68.10%, average public ownership, and managerial ownership at an average 26.90% 4, 55% and an average company ownership of 0.12. There is no clear separation between ownership and control of companies listed on the Jakarta Stock Exchange because most companies are still controlled by certain families and manager positions are still controlled by majority shareholders (Ahmad et al., 2018). As a result, managers only become representatives of the majority shareholders, or in other words what the opinion of the largest shareholders is also the manager's opinion

Business continuity is reflected in profit information obtained by the company, which in this case is used is Return On Assets (ROA), so the company will disclose information if the information can increase the value of the company (Edmawati, 2012). Profitability can be measured through various financial ratios, one of which is return on assets (ROA). Profitability is important for companies to be able to maintain the company's long-term sustainability. Companies that have high profitability are attractive to investors because the company's sustainability becomes increasingly guaranteed and means that the company is able to provide greater returns to investors. The higher the profitability, the higher the value of the company. Various studies that have been conducted to test the effect of profitability on firm value still show inconsistent results so research on the effect of profitability on firm value is interesting to do (Chandra & Djajadikerta, 2018). Prasetyorini (2013) shows that profitability has a significant effect on firm value while the results of the study of Warouw et al. (2016) shows the results that profitability has no effect on firm value.

Company value can also be influenced by leverage. The greater the leverage means the greater the company's wealth financed through debt that can be measured through a debt-to-equity ratio (DER). Debt can be a positive signal for investors because it means the company has an increased ability to manage resources so that investors give more confidence to the company. Increased investor confidence can increase demand for company shares so that the value of the company increases as well. The results of previous studies regarding the effect of leverage on firm value still show inconsistent results so the research on the effect of leverage on firm value is interesting to do. The results of the research by Adenugba et al., (2016) show that leverage affects the value of the company while the results of Prasetyorini's research (2013) show that leverage does not have a significant effect on firm value (Chandra & Djajadikerta, 2018).

The company must be able to make the right decisions, especially those related to corporate finance, both related to the use or fund raising (Husnan & Pujiastuti, 2006). If the company lacks funding, one way is to go into debt. If the structure of corporate funding is more debt, it will have an impact on the risk of bankruptcy of the company (Sudarma, 2004). According to Kasmir (2008), profitability is a ratio to assess a company's ability to seek profits, this ratio also provides a measure of the effectiveness of a company's management. According to Kasmir (2008), ROA shows the ability of company management to generate income from managing assets owned to generate profits. ROA is the ratio between net income and the total assets of the company.

$$ROA = \frac{\textit{Earning After Interest and Tax}}{\textit{total assets}}$$

The use of net income in ROA is an analysis used to evaluate and forecast the company's operating performance, which reflects the company's return of all assets or funding from debt provided by the company. This ratio shows how much effectiveness the company is in using its assets. The higher this ratio, the more effective the use of these assets. Kasmir (2008) states that leverage is a ratio used to calculate and measure how much the company's activities are financed with debt. So it can be said that the leverage ratio is used to measure how well the company is able to pay all of its obligations both short term and long term if the company is dissolved. The formula used to find the Long Term Debt to Equity Ratio:

$$\textit{Long Term Debt to Equity ratio} = \frac{\textit{Long Term Debt}}{\textit{Equity}}$$

Company value is the investor's perception of a public company, which is often associated with stock prices (Sujoko & Soebiantoro, 2007). High stock prices indicate high company value. High company value will make the market believe not only in the company's current performance but also the company's future prospects (Hardiyanti, 2012). In this study is the value of the company measured through tobin's q.

Description :

Q	: Company Value
EMV	: Market value of equity (EMV = closing price x jumlah saham yang beredar)
D	: The book value of total debt
EBV	: The book value of total assets

Schematically, the conceptual framework of research can be seen in Figure 1 :

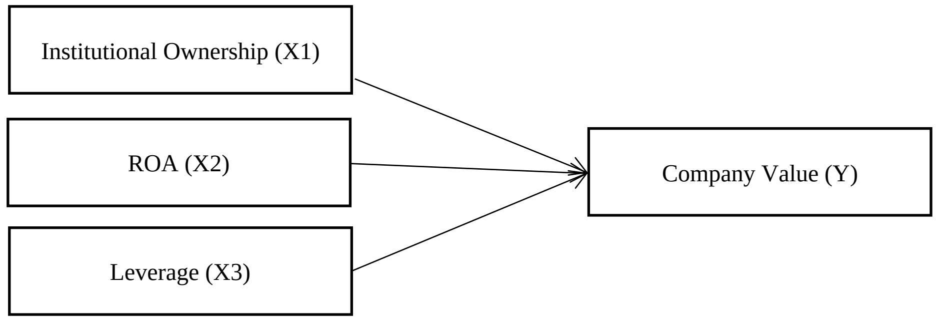

Figure 1. Research Model

2 Research Method

This research is a quantitative research with an explanatory approach (which examines the causality relationship to test the effect of independent variables on the dependent variable. This study uses secondary data in the form of financial statements of Manufacturing Companies listed on the IDX. The study population is all manufacturing companies listed on the IDX as many as 154 companies, with the sampling technique is purposive sampling where in making the criteria the samples taken are manufacturing companies which for succession from 2014-2016 experienced sales growth, for that 18 companies were obtained so the total sample was 54 Samples and Testing using Multiple Regression by testing data quality, Classical Assumptions and Hypothesis testing using SPSS 24.0, the equation model in this study are:

$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + e\ldots$

Y	:	Company Value
X1	:	Institutional Ownership
X2	:	ROA
X3	:	Leverage
α	:	A Constant
β1β2β3	:	Coefficient
e	:	Standard error

3 Result and Discussion

Result

Data normality test is carried out to see whether a data is normally distributed or not where the test can be performed using standardized residual histograms and PP standardized residual plots, then the following graphs are data normality test charts on the pp-plot graph. After testing the normality of the data, then partial testing is done for each variable.

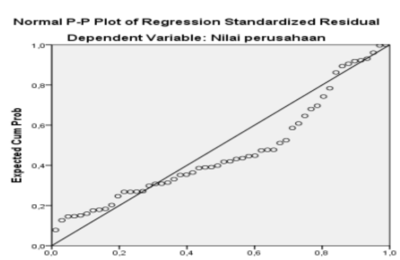

Figure 2. Data Normality Test Results

Table 1. Regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,229	,223		-1,030	,308
	Intitutional Ownership	,562	,273	,259	2,059	,045
	Return On Aset	,335	,383	,110	,874	,386
	Leverage	,809	,264	,377	3,059	,004

Source: Data processed, (2018)

The results of the multiple regression test show the following equation:

$$Y = - 0.229 + 0.562X1 + 0.335X2 + 0.809X3$$

Table 2. Coofesien Determination R2

Model	R	R Square	Adjusted R Square
1	,497a	,247	,202

Source: Data processed, (2018)

Table 2 shows the Adjusted R Square (R2) value of 0.202 or 20.2%. So that it is said that the dependent variable is firm value (Y) can be explained by the independent variable Institutional Ownership (X1), ROA (X2) and leverage (X3) while 79.8% is explained by other variables not intended in the study

Discussion

The results showed that there was a positive and partially significant effect of Institutional Ownership on Company Value, this meant that the large number of institutional ownership could encourage optimal improvement and supervision. These results illustrate the majority owner has a tendency to side with the interests of minority shareholders and does not compromise on management. This result also shows that institutional shareholders use the opportunity, resources, and expertise in analyzing performance and management actions. In other words, Monitoring carried out by institutional investors can limit the actions of managers that lead to short-term goals and actions oriented towards personal interests. Therefore, monitoring conducted by institutional investors encourages managers to act in the interests of shareholders so as to reduce problems that occur within the company (Mussa, musová & debnárová, 2015). The presence of institutional owners is increasingly becoming an important external control mechanism in monitoring management to act on behalf of shareholders and company interests (Katan & Mat Nor, 2015).

The results show that there is a positive but not significant effect between ROA on Company Value, this means that if the company has large assets and can be rotated to generate or earn profits, it will contribute to increasing the value of the company. These results illustrate that a high ROA value will provide a positive signal for investors that the company can produce in favorable conditions. This is an attraction for investors to own company shares and will increase share prices so that the company's value also increases (Hidayah & Widyawati, 2016). These results prove that the high rate of return of total assets is a positive signal for the market / potential investor. This condition is interpreted by potential investors that the company has a good performance with proven high profitability. This condition has an impact on increasing demand for shares in the industry, so that the company's value also increases. The results of this study are supported by empirical studies conducted by Kusuma (2018), Andini & Yunita (2015), where high ROA can increase company value. On the contrary, these results reject an empirical study conducted by Junaeni (2011) that found high ROA actually lowered firm value.

The results showed that there was a positive and significant influence partially on leverage on the value of the company, this meant that the company was able to manage funds derived from debt or loans to improve company performance. These results prove that high leverage is a positive signal for the market / potential investors. This manufacturing industry company applies the concept of trade of theory. Where if the company chooses the capital structure of the debt is still profitable, then the use of debt is the right alternative. Viewed from the perspective of prospective investors or investors, it is seen that companies that are in this condition, are perceived that the company has good credibility. The impact is trusted by creditors when they need additional funds sourced from external sources, because they have high ability to pay long-term debt and be profitable. In addition, this condition indicates that the company is experiencing rapid development, so it requires additional funds. The higher the proportion of debt, the higher the stock price, but at some point the increase in debt will reduce the value of the company because the benefits derived from the use of debt are smaller than the costs incurred. This development allows the company to expand, diversify by forming a portfolio. This condition makes the market interest in investing, so that the stock price increases, and is followed by an increase in the value of the company. The results of this study are supported by empirical studies conducted by Kustono & Kusuma (2013), Rahardjanti & Setyowati (2017) proving that a high debt to equity ratio has an impact on increasing company value. On the contrary, these results reject empirical studies conducted by Mandalika (2016) and Yunita (2015), where high leverage actually reduces the value of the company.

4 Conclusions

Theoretically, the implication of this research is to increase intellectual property knowledge about financial aspects. The managerial implication of this research is the large number of institutional ownership can encourage an increase and optimal oversight. A high ROA value will give a positive signal to investors that the company can generate large profits so that it becomes an attraction for investors to own company shares and will increase share prices and have an impact on increasing company value. High leverage becomes a positive signal for the market or potential investors and shows that manufacturing industry companies have applied the concept of trade of theory which means that companies whose capital structure is derived from debt and still benefit, the use of debt is the right alternative. But at some point an increase in debt will reduce the value of the company because the benefits derived from the use of debt are smaller than the costs incurred.

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