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THE EFFECT OF INSTITUTIONAL OWNERSHIP, CAPITAL STRUCTURE AND COMPANY GROWTH ON FIRM VALUE: EVIDENCE FROM INDONESIA

Ni Putu Mila Suhandi*
Accounting Program, STIE Jakarta International College, Indonesia.
*Corresponding Author: mila.suhandi@jic.ac.id

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ABSTRACT

This study aims to examine the effect of institutional ownership, capital structure, and firm growth on firm value in companies listed on the Indonesia Stock Exchange (IDX). This study uses 32 companies in the LQ45 index listed on the Indonesia Stock Exchange, selected using the purposive sampling method from 2015 to 2019. This type of research is quantitative causality, which is analyzed using the multiple linear regression analysis methods with the help of SPSS version 24 to process data. The results showed that institutional ownership and firm growth positively affected firm value, while capital structure showed a negative effect on firm value. Research implications suggest that to improve the company's management performance, providing the right decisions to obtain sustainable profits must also control efficiency and cost-effectiveness and manage the resources owned so that they can continue to grow and develop into a successful company.

INTRODUCTION

Firm value is the investor's perception of its success, often associated with its performance. A high firm value indicates that the market believes in its current condition and its prospects (Hamam et al., 2020). The company's financial management strives to raise the company's worth, which is representative of the stock price (Fama, 1978). Increasing the company's worth necessitates maximizing the wealth or welfare of its shareholders. According to Ghalandari (2013), each company's value could be related to a share's price, so investors decide to invest by monitoring the firm's value. The investor's opinion of the firm's level of success in managing resources. The stock price is a measure of the worth of a publicly traded company on the stock exchange (Alpi, 2017). According to Subramanyam (2014), firm value is how the market responds to information in financial statements in determining the company's stock price. Pseudo trading will make it appear as if the company is liquid and has a significant profit so that it affects the market perspective and forms a new share price for the transactions made by the company.

According to Thanatawee (2014), the evidence indicates that domestic institutional investors' equity ownership impacts positively. These findings suggest that domestic institutional investors should play a more active role in corporate governance and wealth creation. On the other hand, foreign institutional investors do not actively oversee managers and may even seize firm assets at the expense of smaller owners. According to Jensen & Meckling (1976), Macey (1997), and Buchanan et al. (2018), the presence of an institutional investor can serve as an effective monitoring tool for any managerial choice. Institutional investors will be encouraged to do business with greater scrutiny if a significant level of

institutional ownership enables managers' opportunistic behavior. According to the opinion given, it allows managers' opportunistic behavior to be avoided (Xiong, 2016). Institutional ownership (INST) can raise the firm's worth by participating in corporate governance and overseeing the company's actions, increasing the firm's value. This would lead to minimizing the agency problem arising among shareholders and managers. Investors rate those corporations higher whose shares are owned by institutional investors, which will raise the firm's worth. According to a study conducted by Gusti (2013), institutional ownership has an impact on firm value. Vintilă and Gherghina (2014), Sualehkhattak and Hussain (2017), Ghalandari (2013), and Fara (2020) conclude an effect of institutional ownership on firm value. On the other hand, Hidayat et al. (2020), Astuti et al. (2019), and Sulistiyani (2020) find no effect of institutional ownership on firm value.

Findings by Nguyen et al. (2020) prove that the capital structure positively correlates with the firm value. Besides, increasing leverage or pursuing high profitability and liquidity associated with inflation would weaken the firm value of food and beverages companies. According to the signaling theory, the high debt level capital structure is used as a signal to distinguish good and bad companies. Only a healthy and robust company can pay off with the risks. Myers (1984) states that capital structure can influence firm value. Jensen (1986) states that debt can be used to control excessive free cash flow by management. Companies can use the primary sources to meet their funds or finance, internal sources, namely equity, and external sources, debt. Most companies use a mixture of equity and debt to form a capital structure (Nassar, 2016). As a result, the debt-to-equity ratio is used to assess the capital structure (Seetanah et al., 2014). Nawaz et al. (2011) capital structure theory states that financial policies used to determine a company's capital structure (a mix of debt and equity) is designed to maximize the firm's value.

According to research conducted by Uzliawati et al. (2018), the higher the capital structure with the Debt to Equity Ratio (DER) and Long term Debt to Asset Ratio (LDAR), the higher the firm value, whereas the lower the Long term Debt to Equity Ratio, the lower the firm's value. The study discovered a positive relationship between Debt to Equity Ratio (DER) and Long Term Debt to Asset Ratio (LDAR) and business value, as well as a negative relationship between Long Term Debt Equity Ratio (LDER). The capital structure to asset ratio (DAR) of debt, on the other hand, did not affect the firm's value. Ogbulu and Emeni (2012) found that in a developing economy like Nigeria, equity capital as a component of capital structure has little bearing on a firm's value. In contrast, long-term debt was found to be the most critical determinant of a firm's value. The same result where the capital structure does not affect firm value was reported by Suhadak et al. (2020), Harahap and Wardhani (2011), and Sugiarto (2011). However, Sualehkhattak and Hussain (2017), Adetunji et al. (2016), Suzulia et al. (2020), Asif and Aziz (2016), Ayuba et al. (2019), Hasbi (2015), and Nguyen et al. (2020) reported a positive effect of capital structure on firm value.

Seftianne and Handayani (2011) state that company growth illustrates how investors respect companies, so investors are willing to invest their capital. The growth of a company can be measured in various ways by looking at sales growth. The company's profit margins are affected by the company's sales growth. The company's higher sales growth indicates that it will also provide more considerable earnings to shareholders, increasing shareholder wealth. The ability of a corporation to expand its size is referred to as growth. A company's growth can be measured by examining revenue growth. The company's profit margins are affected by the company's sales growth. Previous research reported mixed findings of company growth on firm value, like the research conducted by Chabachib et al.

(2020), which showed that the sales growth variable did not significantly affect firm value. Furthermore, Sukriyawati (2013) also concluded that company growth does not affect firm value. In contrast to the research results shown by Febrianti (2012) and Syardiana et al. (2016), company growth positively affects firm value.

Based on the above phenomena and the diversity of research results that affect firm value, this study aims to examine whether there is a significant effect of institutional ownership, capital structure, and company growth on firm value. This paper also aims to determine whether there is an effect of institutional ownership and company growth on capital structure. In addition, this study also wants to see how much influence institutional ownership, capital structure, and company growth have on firm value, supported by profitability and company size for the companies listed on the Indonesia Stock Exchange.

LITERATURE REVIEW

Agency Theory

Agency theory explains and predicts the relationship between agents (management) and principals (shareholders or lenders). Agency theory in a cooperation contract, where one or more people (principal) use another person (agent) to perform several services on behalf of the principal by involving the delegation of some decision-making authority to the agent. Cooperation contracts are the rules that regulate the profit-sharing mechanism, both in the form of profits, returns, and risks that the principal and agent approve. The principal is the party who gives the mandate and provides facilities and funds for the company's operational needs, such as shareholders or owners, or investors. Meanwhile, the agent is obliged and responsible for managing the company and increasing the prosperity of the owner or company profits (Jensen & Meckling, 1976).

Signaling Theory

Signaling theory discusses the company's encouragement to provide information to external parties. The signaling theory underlies voluntary disclosure. Management always tries to disclose closed information, which, according to its considerations, is of great interest to investors and shareholders, especially if the information is good news. Management is also interested in conveying information to increase its credibility and company success (Soewardjono, 2015).

Institutional Ownership and Firm Value

The role of institutional investors plays an essential role in company management, and there is empirical evidence regarding the impact of institutional ownership on firm value (Thanatawee, 2014). Evidence shows that domestic institutional investors' share ownership positively affects firm value, whereas higher foreign institutional ownership is associated with lower firm value. The findings show that domestic institutional investors provide an influential supervisory role, enhancing corporate governance and firm value. In contrast, foreign institutional investors are not active in monitoring managers and may even takeover company resources at the expense of minority shareholders.

According to the research by Doğan (2020), ownership structure has problems with endogeneity. A good association between institutional ownership as an endogenous variable and business value has been discovered due to this study's enhanced simultaneous equation method. Furthermore, it has been found that institutional investors are more interested in companies that have outperformed the market. On the other hand, investors in large institutions have incentives to monitor management, and perhaps

the institutional investors can also act to impose desire on company management. The concentration of share ownership also positively impacts the company if controlling a significant shareholder acts by state regulations with weak investor protection and low capital market development (Thanatawee, 2014).

Apriada and Suardikha (2016) found that institutional ownership affects the company's value. The findings shed light on how institutional investors affect corporate value. Overall, the results support the idea that institutional investors play an important role in monitoring companies, hence boosting their value. However, it appears that indigenous institutions, rather than international ones, supply surveillance services. From a management and scholarly standpoint, the findings have significant implications for the relationship between institutional ownership and corporate governance. Policymakers and managers can improve corporate governance by enticing domestic institutional investors to take a more substantial stake in the company. Information about the impact of institutional ownership on corporate governance and business value can assist investors in making more innovative stock market investing decisions.

This study builds on previous studies to address inconsistencies in findings around the relationship between institutional ownership and firm value. The proposed hypothesis is as follows:
H_1: There is a positive relationship between institutional ownership and firm value.

Capital Structure and Firm Value

Company funding is also related to management policies that combine funding from retained earnings and debt and capital from the sale of shares as an alternative to corporate financing that will increase company value. The combination of corporate financing is regularly alluded to as the capital structure. Capital structure and its relationship with company value and performance have produced some inconsistent findings in corporate accounting and finance literature. Since the discovery of the theory of Modigliani and Miller (MM), where MM uses the perfect capital market assumption, investors expect homogeneity, tax-free, and no transaction costs. However, in reality, this assumption is not the case; some researchers use these assumptions to create a capital structure that can affect firm value and performance, especially after the findings of (Jensen & Meckling, 1976). Therefore, capital structure is irrelevant for determining firm value (El-Sayed Ebaid, 2009; Ogbulu & Emeni, 2012; Ardalan, 2017.

The capital structure is a management decision related to company finances used for company operations and investment activities. Company financial decisions also include funding decisions related to debt and capital composition to achieve an optimal capital structure (Zavertiaeva & Nechaeva, 2017). The capital structure can be optimal if the risk inherent in financing through debt or the addition of outstanding shares is proportional to the benefits obtained to increase share prices (Ardalan, 2017).

Previous research conducted by Sari et al. (2013) found that capital structure has a negative effect on firm value, while research conducted by Mas'ud (2009) found that capital structure affects firm value. Research by Febrianti (2012), Hermuningsih (2014), and Hasbi (2015) found that capital structure has a significant positive effect on firm value. Research conducted by Sambora (2014); Apriada & Suardikha (2016) found that capital structure has an insignificant negative effect on firm value.

This study builds on previous studies to address inconsistencies in findings around the relationship between capital structure and firm value. The proposed hypothesis is as follows:

H_2: There is a positive relationship between capital structure and firm value.

Company Growth and Firm Value

According to the findings of Salim & Yadav (2012), corporate performance has a negative association with short-term debt (STD) and long-term debt (LTD) as an independent variable. Sam and Hoshino (2013) reported that Japan outperformed ASEAN in terms of sales growth but experienced a decline from 2008 to 2010 due to the economic downturn and the impact of the semiconductor industry. Cordis and Kirby (2017) show a negative relationship between initial investment and subsequent stock returns. The tangibility of assets, sales growth, and firm size, according to Hendrawan and Heliola (2017), are significant predictors of profitability. Meanwhile, Chen and Chen (2011) demonstrated that profitability positively influences the firm value and has a negative effect on leverage. In contrast, leverage has a negative effect on the firm value, and profitability plays a significant mediating role. Idris (2016) also demonstrated that firm size has a beneficial impact on the profitability of Nigerian manufacturing companies, both in terms of total assets and total sales.

This study builds on previous studies to address inconsistencies in findings around the relationship between capital structure and firm value. The proposed hypothesis is as follows:

H_3: There is a positive relationship between company growth and firm value.

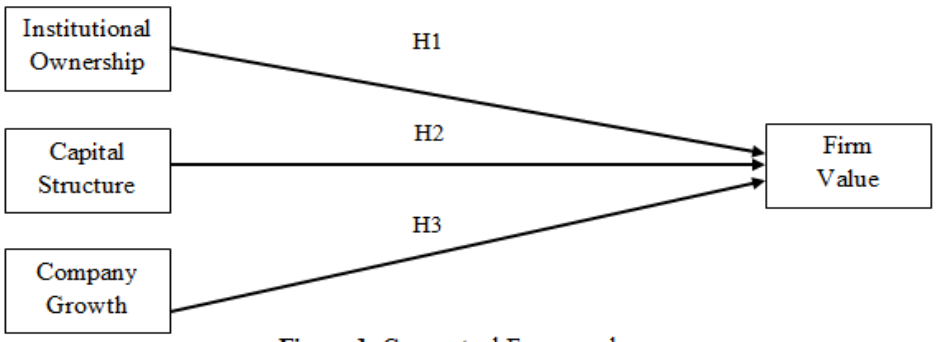

Figure 1: Conceptual Framework

METHOD

Sample and Data

The type of data used in this study is quantitative data, which indicates the variables' magnitude. The data source in this study is secondary data obtained from 2015-2019 from Annual company Reports through the Indonesia Stock Exchange website and ICMD (Indonesian Capital Market Directory).

Table 1: Sample Criteria

Sample Criteria	**Total**
All companies included in the LQ45 index listed on the Indonesia Stock Exchange	45
FILTER CRITERIA 1: Companies that were not consistently included in the LQ45 index in a row during the study period	(6)
FILTER CRITERIA 2: Companies with negative sales growth from 2015-2019	(7)
The number of research samples (45 – 6 – 7)	32
The number of years from 2015-2019	5
The number of research samples used (32 x 5)	**160**

Source: Data Processed (2021)

This study's population comprises (45x5) 225 companies included in the LQ45 index listed on the Indonesia Stock Exchange during the year 2015-2019. The sample to be used in the study was selected using a purposive sampling method mainly based on two criteria: companies that were consistently included in the LQ45 index during the study period; and, secondly, companies with positive sales growth from 2015 – 2019. A total of (6+7) 13 companies were removed because they did not meet the research criteria, so that the total final sample in this study was (45-13) 32 companies, with the observation year of 2015-2019 (5 years) yielding a full research sample of (32x5) 160 observations. Data analysis in this study was carried out by regression analysis using the IBM SPSS (version 26) program to determine the effect of institutional ownership, capital structure, and firm growth on firm value.

Operational Definition and Variable Measurement

Table 2: Operational Definition and Variable Measurement

Variable	Operational Definition	Proxy	Sources
Firm Value	Market to ratio calculated book value with price ratio equity market plus debt divided by company asset value	$Tobin's\ q = \frac{market\ value\ of\ equity\ +\ total\ debt}{total\ asset}$	(Hermuningsih, 2014); (Adnantara, 2014); (Benson & Davidson, 2009); (Patrisia et al., 2020)
Institutional Ownership	Ownership Percentage share by an institution or institution is certain compared by the number of shares outstanding.	$INST = \frac{\sum institutional\ share}{\sum outstanding\ share}$	(Adnantara, 2014); (Lin & Fu, 2017); (Patrisia et al., 2020)
Capital Structure	The capital structure (CS) is a management decision in determining the composition of the company's financing through debt and new shares' issuance	Debt to Equity Ratio (DER)	(Hasbi, 2015)
Company Growth	Company growth (CG) is measured by sales stability by looking at the comparison between the number of net sales for the year concerned (year t) minus the number of net sales in the previous year (year t-1) then divided by the number of net sales for the year previous (year t-1	$CG = \frac{net\ sales\ n - Net\ sales\ n-t}{Net\ sales\ n-t}$	(Chabachib et al., 2020)**;** (Subing et al., 2019)
Profitability	Profitability is a ratio to assess the ability companies in search of profits that provide a measure of the level of effectiveness of a company's management.	$ROA = \frac{net\ profit}{total\ asset}$	(Hermuningsih, 2014)
Company Size	Company size is one of the variables considered in determining the value of a company which is a reflection of the total assets owned a company	SIZE = Ln Assets	(Khoeriyah, 2020)**;** (Sidik & Suhono, 2020)

Data Analysis Technique

Multiple regressions analysis was used to test the hypotheses. SPSS 26 is used as statistics software to predict the influence between two or more independent variables on the dependent variable.

Tobin^' s Q= a+β_(1) INST+β_2 CS+β_3 CG+β_4 PROF+β_5 SIZE+ε (1)

Where,

Q : Firm Value
a : Constant
INST : Regression coefficient of institutional ownership structure
CS : Capital structure regression coefficient
CG : Company growth regression coefficient
PROF : Profitability regression coefficient
SIZE : Company Size regression coefficient
ε : Standard error

RESULT AND DISCUSSION

Descriptive Statistics

Table 3: Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
INST	160	17,48	92,50	60,9385	13,28123
CS	160	-0,43	4,03	0,5704	0,45223
CG	160	-56,11	110,62	10,2068	20,28587
ROA	160	-0,01	0,46	0,1058	0,10955
SIZE	160	27,39	35,08	31,5305	1,78629
Q	160	0,10	23,29	3,5881	4,36471

Source: Secondary Data Processed (2021)

The data used as research samples are 160 observational data in Table 1. Institutional ownership has a maximum value of 92.50, a minimum value of 17.48, and an average value of 0.9385. The capital structure has a maximum value of 4.03 and a minimum value of -0.43 with an average value of 0.5704. The company's growth has a maximum value of 110.62, a minimum value of -56.11, and an average value of 0.2068. ROA has a maximum value of 0.46, a minimum value of 0.01, and an average value of 0.1058. Company size has a maximum value of 35.08, a minimum of 27.39, and an average of 31.5305. The company has a maximum value of 23.29, a minimum value of 0.10, and an average of 3,5881.

Table 4: Summary of Classical Assumption Test

Classical Assumption Test	Requirements	Results	Summary
Normality Test	Combine K - S > 5%	0.5138	Data Normally Distributed
Autocorrelation Test	Nilai Prob > F >5%	0.9262	No Autocorrelation
Multicollinearity Test	VIF >5%	1.0631	No Multicollinearity
Heteroscedasticity Test	Prob > Chi2>5%	0.8980	No Heteroscedasticity

Source: Secondary Data Processed (2021)

Regression and Hypothesis Test

Table 5: The Influence of Institutional Ownership, Capital Structure and Company Growth on Firm Value

Variables	Prediction	Regression coefficient	t_{count}	sig.	R square	F_{count}	Sig
					0.394	20.037	0.000
(Constant)		5.522	2.318	0.022			
INST	+	0.051	5.336	0.000*			
CS	+	0.318	1.147	0.253			
CG	+	-0.016	2.574	0.011*			
PROF		6.283	5.326	0.000*			
SIZE		-0.224	-3.118	0.002*			

Source: Secondary Data Processed (2021)

Regression Testing

Based on the regression equation above, it can be interpreted the amount of the constant obtained is 5,522, without any independent variables, namely INST, CS, CG, PROF, and SIZE, then the firm value is 5,522. The regression coefficient (b) of the INST variable obtained is + 0.051; each one-point increase in the institutional ownership variable will increase the firm's value by about 0.051 points. The regression coefficient (b) of the CS variable obtained is + 0.318; this indicates that each capital structure variable increases by one point, increasing the company's value by approximately 0.318 points. The regression coefficient (b) of the CG (company Growth) variable obtained is - 0.016, and it indicates that each firm's growth variable increases to one point, it will result in a decrease in the company's value by 0.016 points. The regression coefficient (b) of the PROF variable obtained is positive, namely 6,283; this indicates that every increase in profitability by one point increases the company's value by approximately 6,283 points. The regression coefficient (b) of the SIZE variable obtained is negative -0.224, which indicates that each firm size increases by one unit, it will result in a decrease in the company's value by 0.224 unit.

From the feasibility test, the F_{count} is 20,037 with sig 0,000 <0.05. The contribution of institutional ownership variables, capital structure, company growth, profitability, and firm size to firm value is 33.36%, and other unidentified factors give the remaining 66.64% of the firm's value variable. The F test is carried out together with exogenous variables whose positive and significant influence on the company. As a result, the exogenous variables together have a positive and significant relationship to the endogenous variables. The determination coefficient is needed to determine how big the dependent variable is to the independent variable—calculated by squaring a predetermined assessment coefficient.

Hypothesis Testing

Hypothesis testing is used to determine the effect of institutional ownership, capital structure, and company growth on firm value, either simultaneously or partially. Control variables (profitability and firm size) were added to this study to control endogeneity in econometric models with inseparable and/or multidimensional heterogeneity (Newey & Stouli, 2021). The variables of institutional ownership, capital structure, and company growth have a significance value of 0.000 with a calculated F value of 20.037 (Table 2). Thus, it can be concluded that the variables of institutional ownership, capital structure, and company growth together affect firm value.

The institutional ownership variable has a t-statistic value of 5.336 with a significance level of 0.000, so it can be concluded that institutional ownership affects firm value. The relationship between the variable institutional ownership and firm value is positive. If there is an additional component of the company's institutional ownership, it will increase its value. This finding supports the results reported by Vintilă and Gherghina (2014), Sualehkhattak and Hussain (2017), Ghalandari (2013), and Fara (2020), and the results of this study are not in line with the findings of Hidayat et al. (2020), Astuti et al. (2019), and Sulistiyani (2020) where institutional ownership does not affect firm value. Therefore, hypothesis (H_1) states that institutional ownership positively affects firm value is accepted.

The capital structure variable has a t-statistic value of 1.147 with a significance level of 0.253, concluding that capital structure does not affect firm value. The relationship between the capital structure variable and firm value is positive, which means that if there is an additional debt composition in the retail company's capital structure, it will increase the creditor's retail value. However, for investors, the company's debt cannot affect the capital structure. This finding supports the previous researches by Suhadak et al. (2020), Harahap and Wardhani (2011), and Sugiarto (2011). The results of this study do not support the findings reported by Sualehkhattak and Hussain (2017), Adetunji et al. (2016), Suzulia et al. (2020), Asif and Aziz (2016), Ayuba et al. (2019), Hasbi (2015), and Nguyen et al. (2020) found that capital structure affects firm value. This study's hypothesis (H_2), which states that capital structure positively affects firm value, is rejected.

The company growth variable has a t-statistic value of 2.574 with a significance level of 0.011, concluding that company growth affects firm value. Investors can use sales growth data to project the company's future profits. For creditors, monitoring sales growth is evidence of the resource utilization activities carried out by the company. The results of this study show that sales growth has a positive effect on firm value. This finding supports the results of research by Febrianti (2012) and Syardiana et al. (2016) and does not support the conclusions by Sukriyawati (2013), where company growth does not affect firm value. This study's results on the hypothesis (H_3), which states that company growth positively affects firm value, are accepted.

CONCLUSION

Based on the results and discussion, it can be concluded that institutional investors' role plays an essential role in company management, and there is empirical evidence regarding the effect of institutional ownership on firm value. The findings indicate that domestic institutional investors provide an influential supervisory role, improving corporate governance and firm value. Capital structure and its relationship with company value and performance have produced inconsistent corporate accounting and finance literature findings. Ever since the discovery of the theory of Modigliani and Miller (MM), where MM uses the perfect capital market assumption, investors expect homogeneity, tax-free, and no transaction costs. Therefore, capital structure is irrelevant for determining firm value. Capital structure is a management decision related to company finances used for company operations and corporate investment activities. Company financial decisions also include financing debt and capital composition to achieve an optimal capital structure. Companies with high profitability will make investors see the company's performance by how much return is being received for each invested capital. Sales growth predicts future sales growth by looking at the previous period's successful investment behavior. Sales growth is used as a prediction for future growth so that it is expected that the company can maintain sales growth to meet its survival.

According to the signaling theory, high profitability indicates good company prospects so that investors will respond positively and the company value will increase. The return rate on equity indicates a better opportunity for the company so that investors will react positively, and the company value will increase. The size of the company is sufficient to affect the level of profitability of a company. Companies that have a larger company size tend to influence increasing profitability and value creation. The larger company will be relatively stable and able to generate profits and vice versa. Investors will be much more cautious about investing in stocks on companies with large sizes because they have a lower level of risk.

The limitations of this study are that the research sample comprises companies listed on the LQ45 index on the Indonesian Stock Exchange. Future researchers can examine the value of companies from the manufacturing sector, mining sector, or banking sector. Other independent variables related to firm value include funding, investment, leverage, and corporate social responsibility that could be added in future research. In addition, further research may consider using other analytical methods such as path analysis to determine whether the results obtained are consistent with previous studies and to get more accurate results.

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