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Do Institutional Ownership and Profitability Increase Firm Value?

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Abstract. *This research aims to examine the influence of institutional ownership and profitability variables on company value. The population in this study are Fast Moving Consumer Goods companies listed on the Indonesia Stock Exchange in 2019-2021. The sampling technique for this research uses the Purposive Sampling Technique where the sample is selected using certain criteria so that in this research 15 companies were obtained over 3 years so that a total of 45 research data were obtained. The data analysis technique used in this research uses statistical analysis which includes multiple correlation, multiple regression, determination tests and hypothesis tests. The results of this research institutional ownership variable obtained a significance value of 0.546>0.05. So it can be concluded that institutional ownership has no effect on company value. Return On Assets variable obtained a significant value of 0.112>0.05. So it can be concluded that Return On Assets has no effect on company value.*

Keywords*: Institusional Ownership, Profitability, Company Value*

1. INTRODUCTION

In facing the current rapid development of the Indonesian economy, companies are required to further improve their performance in order to survive in the face of rapidly changing and dynamic economic problems. So a good financial performance report is needed in order to provide an overview and view to the public and investors regarding the company's performance achievements so that decisions can be made. The definition of company financial performance according to the Indonesian Accountants Association (2007) is the company's ability to manage and control the resources it owns. According to Rudianto (2013:189) financial performance is the results or achievements that have been achieved by company management in carrying out its function of managing company assets effectively during a certain period. Measuring company performance is important information for investors to see whether they will maintain their investment in the company. Financial performance assessment can measure the cost level of various activities carried out by the company, to determine or measure the efficiency of each part, process or production and to determine the degree of profit that can be achieved by the company Basically, every company has two goals that must be achieved, namely short- term goals and long-term goals. The company's short-term goal is to maximize profits, while the company's long-term goal is to maximize company value. Company value is the company's performance which is reflected in the share price which is formed by the demand and supply of the capital market, which can describe the public's assessment of its performance. Company value is also interpreted as share market value, because company value can increase

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shareholder prosperity if the share price increases (Winarto, 2015). Company value is very important because it reflects the company's performance. High company value is demonstrated by the company's good financial performance and is reflected in the company's success and shareholder prosperity. In this research, company value is measured using Price to Book Value because it can provide information regarding the amount of net profit after tax.

One element that influences company value is the profitability ratio, with the aim of measuring the company's ability to generate profits at certain levels of sales, assets and capital (Winarto, 2015). The profitability ratio is a ratio to assess a company's ability to make a profit or profits in a certain period (Kasmir, 2016). Profitability ratios can be said to be good if they can obtain a predetermined profit using the assets or capital they own. In this research, the profitability variable is measured using Return On Assets, the reason is that ROA can provide a more accurate measure of the company's profitability calculations and shows the effectiveness of management in using assets to obtain income.

It cannot be denied that to obtain optimal company performance and value, there are several other factors such as institutional ownership. Company value is one of investors' perceptions of the company which is related to share prices. High share prices will increase company value. High company value will contribute to the prosperity of investors. The wealth of companies and investors is reflected by the market price of shares which represents investment, asset management and financing decisions.

This means that the higher the company's market price, the greater the prosperity of investors. This situation certainly attracts investors' interest because increasing demand for shares can add to the company's value. However, in the process of maximizing the increase in company value, there is the possibility of agency conflicts (agency problems) caused by differences in goals and interests between managers and investors in an effort to increase company value. In this case, the goals and interests of company managers are in conflict with the interests of investors and even the goals of the company itself. This condition can give rise to a conflict called agency conflict. The existence of agency conflict can give rise to agency costs for the company. One way to minimize agency costs is by increasing institutional share ownership. The large number of shares owned by institutional parties will strengthen the control and supervision mechanisms carried out by external parties to the company so as to reduce agency costs and have a positive effect on increasing company value.

Theoretically, the relationship between institutional ownership and company value can be explained through agency theory. This theory is used to explain the company's goal of providing prosperity for investors by increasing company value by increasing the amount of institutional ownership. Institutional ownership is considered capable of being an effective control mechanism in every decision taken by managers. The effectiveness of this control will guarantee prosperity for investors because institutional ownership plays an important role as a monitoring agent through a fairly large investment value in the capital market. The influence of institutional ownership as a supervisory agent can be seen from the number of shares held on the capital market. The greater the number of share investments made in the capital market, the more effective supervision of the company will be.

The object of this research is the Fast Moving Consumer Goods company, which is a company with products that are very popular, sell quickly, and have affordable prices which makes many investors interested in investing their funds. Supported by Indonesia's large population and continuing to increase, consumption levels also increase. Apart from that, it also has a minimal risk of bankruptcy. FMCG product categorization consists of personal care, household needs, soft drinks, snacks, bathroom cleaners, batteries, stationery equipment, cosmetics, cigarettes, and others. Researchers chose FMCG companies as research objects because retail development in Indonesia is increasingly rapid, supported by the very high population in Indonesia and 72% of them are of productive age. Apart from that, FMCG companies are companies with products that are used every day so that products can be sold in a short time and at affordable prices. FMCG has shares that are actively traded on the stock exchange so their share prices also move actively.

This research was conducted because of the previous research gap phenomenon which had inconsistent results. Sintarini (2018) researched with the title "The Influence of Profitability, Liquidity, Solvency and Activity on the Value of Pharmaceutical Companies on the IDX" which stated that liquidity, solvency and activity had a significant positive effect on company value while profitability had an insignificant positive effect on company value. In the same year, another opinion was expressed by researcher Erlina (2018) with the title "The Influence of Liquidity, Solvency, Profitability on the Value of Mining Companies on the Indonesian Stock Exchange" stating that liquidity, solvency and profitability had an insignificant negative effect on company value. Apart from that, several studies have been carried out to test the influence of institutional ownership on company value, providing varying results, including finding an influence between these two variables. However, there are also research results which state that these two variables have no effect. These studies include those conducted by Gugong et.al, (2014) which concluded that institutional ownership has an effect on company value. The opposite result was stated by research by Sujoko and Soebiantoro (2007) which explained that institutional ownership has no influence on company value. The problem formulation in this research is:

1. Does institutional ownership affect company value?
2. Does profitability affect company value?

2. LITERATURE REVIEW

Agency Teory

The main theory underlying this research is agency theory. Agency theory explains about two parties entering into an agreement or contract, namely the party who provides authority is called the principal/investor and the party who controlling what is called an agent/manager. This theory was put forward by Michael C. Jensen and William H. Meckling in 1976, according to this approach the capital structure is structured in such a way as to reduce conflict between various interest groups Management is the agent of shareholders, as the owner of the company. Shareholders hope agents will act in their interests so delegate authority to agents. According to Williandri (2011: 96) defines Agency costs are costs associated with monitoring actions management to ensure that these actions are consistent with existing contracts agreed between managers, shareholders and creditors.

Financial Value

According to Gitman (2006: 352), company value is the actual value per share that would be received if the company's assets were sold at the share price. Meanwhile, Martono and Harjinto (2010: 13) argue that company value is maximizing company value, which is referred to as making shareholders prosperous, which can also be interpreted as maximizing the price of the company's ordinary shares." To be able to determine the value of a company, financial ratios can be used. The ratio of the company's market value indicates the performance and prospects of management which are based on investor assessments (Sukamulja, 2004). In this research, company value is measured using the PBV (Price Book Value) indicator.

Institutional ownership

Institutional ownership is share ownership by other institutions namely ownership by a company or other institution. Share ownership by parties formed by institutions such as government, private, domestic and foreign institutions. Institutional ownership is a tool used to reduce agency conflict. Institutional ownership has the ability to control parties management through an effective monitoring process. According to Nabela (2012: 2) institutional ownership is: The proportion of shares institutional ownership at the end of the year as measured by percentage. Widarjo (2010) Institutional ownership is a condition where institutions own shares in a company. These institutions can be government institutions, private institutions, domestic and foreign. (Widarjo, 2010: 25). Institutional ownership is the proportion of share ownership owned by a company. the institution can be government institutions, private institutions, domestic or foreign.

Profitability

Profitability or the ability to earn profits is a percentage measure used to assess the extent to which a company is able to generate profits at an acceptable level. According to Munawir (2002), profitability is a company's ability to generate profits within a certain time period. Meanwhile, the definition of profitability according to Brigham and Houston (2006) is the net result of a series of policies and decisions. Profitability can be determined by calculating various relevant benchmarks. One of these benchmarks is financial ratios as an analysis in analyzing the financial condition, operating results and level of profitability of a company.

3. METHODS

In this research the author used a quantitative approach. Cresweel (2010, p. 24) states that, "the quantitative approach is the measurement of quantitative data and objective statistics through scientific calculations derived from samples on a number of questions about a survey to determine the frequency and percentage of their responses. This research aims to examine the impact of constitutional ownership and profitability on company value. The population in this research is Fast Moving Consumer Goods Companies Listed on the Indonesian Stock Exchange for the 2019-2021 Period. The sampling technique used was the Purposive Sampling Technique so that the total sample obtained in this research was 15 companies over 3 years so that 45 research data were obtained. Data analysis was carried out statistically due to the accuracy of the results and the amount of data available, which includes multiple correlation tests, multiple regression, determination tests and hypothesis testing (T test and F test).

4. RESULTS

Linier Regression

Table 1 Linier Regression

Model	nstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

1	(Constant)	20,029	4,623		4,333	,000
	Institusional Ownership	,055	,097	,057	1,564	,546
	ROA	4,135	1,261	,416	3,280	,112

a. Dependent Variable: PBV

The multiple linear regression equation based on the results of processing the table above is as follows:

Y = 20,029 + 0,055 KI + 4,135 PR + e

The results of the multiple linear regression equation can be explained as follows:

a. The constant is 20.029, stating that if the institutional ownership variable and profitability are considered constant, then the Price to Book Value (PBV) is 20.029.
b. The Institutional Ownership regression coefficient is 0.055 (positive sign), stating that every time there is an increase in Institutional Ownership by 1 unit and profitability conditions remain constant, the Price to Book Value will increase by 0.055.
c. The Return On Asset regression coefficient is 4.135 (positive sign), stating that every time there is an increase in Return On Assets of 1 unit and the condition of Institutional Ownership is constant, the Price to Book Value will increase by 4.135.

Coefficient of Determination Test

Tabel 2

Model Summary

	R	R Square	Adjusted R Square	. Error of the Estimate
1	,926a	,883	,760	7,42348

a. Predictors: (Constant), In stitusional Ownership, Profitability

Sumber : Data Sekunder yang diolah 2024

Table 2 above shows that the R2 value is 0.660. This indicates that the three independent variables, namely institutional ownership and profitability, can explain company value by 76%. Meanwhile, the remaining 24% (100%-76%) is influenced by variables not examined in this research, such as the company's growth rate, sales stability, operating leverage, asset structure, capital structure, and so on.

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T Test

Table 3 T Test

Model		nstandardized Coefficients		tardize d Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	20,029	4,623		4,333	,000
	Institusional Ownership	,055	,097	,057	1,564	,546
	ROA	4,135	1,261	,416	3,280	,112

b. Dependent Variable: PBV

a. The institutional ownership variable obtained a significance value of 0.546 > 0.05, so Ho is accepted and Ha is rejected, meaning it can be concluded that institutional ownership has no significant effect on company value.
b. The profitability variable obtained a significance value of 00.112> 0.05, so Ho is accepted and Ha is rejected, meaning it can be concluded that profitability has no significant effect on company value.

Statistical Test f

Tabel 4 Uji F

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4867,486	3	1622,495	29,442	,000[b]
	Residual	2259,428	41	55,108		
	Total	7126,913	44			

c. Dependent Variable: PBV

Based on the SPSS output results above, the calculated f value is 29.442. The statistical value shows the calculated f result is 29.442 and the f table is 3.220 with a significance value of 0.000. This means that f count > f table and the significance value is < 0.05, so Ho is rejected and Ha is accepted. It can be concluded that the profitability variables simultaneously (together) have an effect on company value.

5. DISCUSSION

1. Institutional ownership is share ownership of institutions or institutions such as insurance companies, banks, investment companies and other institutional ownership. Independent board of commissioners Institutional ownership Company value Managerial ownership Journal of Sharia Accounting and Finance (Alliance) Vol. 2 No. 1, May 2019 Suparlan | 53 Institutional investors will encourage increased, more optimal monitoring of management performance and company value. From the results of statistical analysis for

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the institutional ownership variable, it is known that the regression coefficient for the institutional ownership variable obtained a significance value of 0.546 > 0.05. So it can be concluded that institutional ownership has no effect on company value. Every increase in institutional ownership will reduce company value by -0.126. This is contrary to previous research by Topowijono et al (2016) and Putra (2013). This research is supported by research conducted by Sukirni (2012) that the results of hypothesis analysis show that institutional ownership has a significant effect on company value

2. In this research, the hypothesis which states that profitability has a significant positive influence on company value is rejected. The results of this research data analysis show that the higher the return on assets value does not determine that the company value will be good in the eyes of investors. Company value can decrease when return on assets does not have much influence on investors' decision to invest, which can cause share prices to fall. This also shows that the size of the profit does not affect the value of the company. The results of this research are also supported by previous researchers by Ilham Thaib (2015), Nanda Putra Setyawan (2019), Dhian and Dian (2021), Jamaluddin and Ridwan (2021) who stated that profitability has an insignificant negative effect on company value.

6. CONCLUSION

1. From the results of statistical analysis for the institutional ownership variable, it is known that the regression coefficient for the institutional ownership variable obtained a significance value of 0.546>0.05. So it can be concluded that institutional ownership has no effect on company value.
2. From the results of statistical analysis for the profitability variable, it is known that the regression coefficient for the Return On Assets variable obtained a significance value of 0.112>0.05. So it can be concluded that Return On Assets has no effect on company value.

LIMITATION

Based on the results of the research described previously, several research limitations were found as follows:

1. This research only lasted 3 years using 15 companies, which resulted in a limited number of research samples so that it could not provide accurate information.
2. This research only uses 2 variables as indicators to see the influence on company value, so there are many other variables outside research that can measure company value.

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