Vol. 9, No. 4, 2023, pp. 9-15
DOI: https://doi.org/10.29210/0202312242

Contentslistsavailableat[JournalIICET](https://jurnal.iicet.org)

JPPI (Jurnal Penelitian Pendidikan Indonesia)
ISSN: 2502-8103 (Print)ISSN: 2477-8524(Electronic)

Journalhomepage: https://jurnal.iicet.org/index.php/jppi

Ownership institutional and firm value: the mediating role of profitability in Indonesian firms

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Article Info

Article history:

Received Nov 08th, 2022
Revised Jul 15th, 2023
Accepted Aug 13th, 2023

Keyword:

Institutional ownership,
Profitability,
ROA,
Firm value,
Mediation

ABSTRACT

Institutional ownership refers to the shareholding structure and the parties that own or control a company. Institutional ownership can be interpreted as ownership of company shares owned by institutions. In this case, institutions refer to legal entities such as corporations, banks, insurance companies, and others. This study aims to research related to management that continues to grow. The research method used is quantitative research. This study provides a clear picture of the effect of institutional ownership of the company through profitability. The research was conducted on all companies listed on the Indonesia Stock Exchange from 2015 to 2018. The sample used in this study consisted of 322 companies selected using a purposive sampling method. Data processing uses mediation analysis with the SPSS 24 application with the additional PROCESS feature by Hayes. The results showed that, first, institutional ownership affects firm value. Second, profitability mediates the effect of institutional ownership on firm value.

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Introduction

Studies related to institutional ownership have been carried out by several researchers in various countries. The results of previous research related to institutional ownership and firm value in general have similar results, namely that institutional ownership has an effect on the level of firm value ((Budianto & Payamta, 2014); (Clay, 2002); (Navissi & Naiker, 2006); (Thanatawee, 2014)). Enterprise value is a measure or estimate of the total value of all company shares, which reflects how the market values the company based on its assets, performance, prospects, and competitive position in the relevant industry or sector. In addition, institutional ownership refers to the shareholding structure and the parties that own or control a company. This ownership can consist of individual shareholders, institutional investors, and other business entities (Saifi, 2019). Although in general they show similar results, there are also those who find contradictory results which state that institutional ownership below 81.2% has no impact on firm value (Lin, 2010). Where according to (Pamungkas & Puspaningsih, 2013), company value is the result of financial decisions regarding investment decisions, funding decisions, and dividend policies.

Institutional ownership can be interpreted as the ownership of company shares owned by institutions. Institutions in this case refer to legal entities such as corporations, banks, insurance companies, and others. According to (Pirzada et al., 2015) Institutional ownership is the percentage of share ownership owned by institutional investors such as mutual funds, securities companies, insurance, pension funds, and financial institutions. Thus, with a large shareholding, they encourage the company's management to adopt long-term growth strategies and sustainable business initiatives. This can help the company to allocate resources and labour efficiently to achieve long-term growth objectives that have a positive impact on profitability.

In agency theory, the emergence of agency conflicts is based on the assumption that the interests of owners and managers (company managers) are sometimes different. In practice, managers often make decisions that are not in the interests of the owners; managers prefer decisions for their own interests ((Clay, 2002); (Rachmat & Waspada, 2020)). Therefore, an optimal monitoring system is needed to ensure that every decision made by management is in accordance with the interests of the company's owner. Institutional ownership is believed to be an effort that can be made to ensure managers run their businesses in line with the goals of the owners of the company. According to (Nurkhin et al., 2017), The ownership structure will be increasingly able to play its role if the company can achieve good profits. Thus, it will affect the value of a company. Institutional ownership can carry out the supervisory function of company managers optimally. Institutional ownership has better capabilities and resources when compared to individual ownership because it has experience in managing a company and is supported by greater financial strength that can be used to carry out the supervisory function. So, institutional ownership in the proportion of company ownership can be used as a means to reduce conflicts between agents (Jensen & Meckling, 2019).

On the other hand, the financial support can also be used by the company to carry out programs and strategies so that the company can develop in the future so that it can generate profits, which, of course, with the company's profits, can increase the interest of investors in investing in the company so that the value of the company will increase (Jennings, 2005). Some factors that can affect firm value include profitability and capital structure (Tanujaya et al., 2016). Investment in innovation and new product development can improve a company's competitiveness, create added value, and increase market share, which in turn has a positive impact on profitability. In addition, profitability mediation is often identified in the context of research and statistical analyses that try to understand the causal relationship between certain variables and the financial performance of a company. So according to (Kosimpang et al., 2017) More profitable companies tend to have better prospects and attract investors, which in turn can increase the value of the company.

Studies on the relationship between institutional ownership and firm value have shown a complex interplay. However, one crucial factor that may mediate this relationship is firm profitability. Profitability is the ability of a firm to generate profits from its operations. Institutional investors have an interest in reducing risk and volatility in their investment portfolio. Therefore, they will encourage companies to manage risks well and have strategies to cope with unexpected situations that may affect profitability. Therefore, firm profitability is an essential mediator in Indonesia's relationship between institutional ownership and firm value. However, this mediating effect needs to be better understood through careful research and more in-depth analyses. In addition, other factors should also be considered to gain a more complete understanding of the complexity of this relationship.

Many research studies related to ownership and firm value have been carried out by previous researchers. However, previous studies have focused more on the direct relationship between the effect of institutional ownership on firm value and firm value. Research related to the direct relationship between institutional ownership and firm value has also been carried out in other developing countries such as Malaysia and Thailand. The results show that institutional ownership has an effect on increasing firm value ((Sulong & Nor, 2008); (Thanatawee, 2014)). In this study, the researcher tries to examine the effect of institutional ownership on firm value by using the profitability variable as a mediating variable. The mediating variable is used to describe how the influence of institutional ownership affects firm value. The researcher assumes that companies with institutional ownership do not necessarily increase the value of the company or its indirect relationship, but through profitability, companies with institutional ownership can carry out supervision and financial support to the company. good financial support and the support of experience possessed by the owner. They can use it so that the company has the opportunity to develop and generate profits. The profits earned by the company can be distributed to the owners of the company (dividends). When a business makes money and gives out dividends, it will attract investors and raise the value of the business.

Investors' views related to institutional ownership in companies can be seen as positive or negative. Because according to (Dewi & Abundanti, 2019) institutional ownership generally acts as a company monitor. Institutional ownership is the proportion of share ownership at the end of the year owned by institutions, such as banks, insurance or other institutions. Institutional ownership has an essential meaning in monitoring management. Several studies show that investors perceive that with high institutional ownership, the supervision and management of the company will be better (Jensen & Meckling, 2019). Research conducted by (Darmayanti & Sanusi, 2018) states that institutional ownership affects firm value. Research conducted in coal mining companies from 2010 to 2012 in Indonesia showed similar results that institutional ownership has proven to attract investors to invest (Dian, F., &Lidyah, 2014). Other research conducted by (Tambalean et al., 2018) shows the opposite result, namely institutional ownership has no effect on firm value. This is because investors feel worried when investing in companies with high institutional ownership values. This is because high institutional ownership has a large voting right on every business decision. company. It is feared that the decisions taken will favor the owners who have a large ownership (Mastuti & Prastiwi, 2021).

Method

This research uses a quantitative research approach in order to get a complete picture related to the value of the company. According to Sugiyono (Sugiyono, 2019), research with quantitative methods is a research method based on the philosophy of positivism; quantitative methods are used in research with a determined population or sample, data is collected using research instruments, quantitative or statistical data analysis is carried out, aimed at testing predetermined conjectures. This study uses secondary data sourced from financial report data on the Indonesia Stock Exchange (IDX) from 2015 to 2018, which can be accessed on the official IDX website and the official websites of each company.

This study uses one independent variable, one dependent variable, and one mediating variable. The independent variable used in this study is institutional ownership (IO), which is measured using the percentage of managerial ownership divided by the total number of shares outstanding. The dependent variable used in this study is firm value (FV), which is measured using the Tobins Q ratio (Tobins Q in (Estiasih et al., 2019)). While the mediating variable in this study is profitability, which is measured using the Return on Assets (ROA) ratio (Kasmir, 2012). The population in this study was comprised of 627 companies from all sectors of the stock exchange. A sample of 322 companies was taken from this population using a purposive sampling technique. The criteria used in selecting the samples can be seen in table 1:

Table 1. Research sample criteria

Criteria	Number of Companies
In 2015-2018, the total number of companies listed on the Indonesia Stock Exchange	627
companies that did not publish audited financial statements on a consistent basis from 2015 to 2018	50
companies that had negative profits for the second year in a row in the 2015-2018 fiscal year	150
Companies whose annual reports use currency inconsistently	100
The total research sample	322

Testing of the hypotheses proposed in this study uses the causal step model proposed by Baron & Kenny in (Akhtar & Soetjipto, 2014). Data processing uses SPSS 24 software, which already uses the additional PROCESS menu from Andew F. Hayes.

Results and Discussions

Descriptive statistics are used to provide an overview of each of the variables studied.

Table 2. contains descriptive statistics.

Desc	FV	IO	ROA
Min	0.002251	0	-55.8249
Max	3.174479	0.9955	91.81635
Range	3.172228	0.9955	147.6413
Mean	0.24997	0.5021	3.947407
Stdev	0.327988	0.2148	6.864493
Median	0.145199	0.5278	3.34902

Table 2 shows the results of the descriptive statistics for each of the variables studied. From the table, information on firm value (FV) ranges from 0.0002251 to 3.172228 with an average of 0.24997. This shows that the value of the majority of companies has a value (Tobin's Q) below the number 1. Institutional ownership is measured using a scale of 0 to 1. Based on table 2, it can be seen that the average institutional ownership is 50.21% with a standard deviation of 0.281. While if we look at table 2 related to profitability (ROA), it shows an average value of 0.394 with a standard deviation of 6.864493. 3.94%. Return on Assets (ROA) shows that the assets owned and used by the company are able to earn a profit of 3.94%. The assets owned and utilised by a company can be the key to creating value and earning profits. A company's assets include various elements that can be used or utilised to generate revenue and profitability.

From the classical assumption test, it shows that all the data has met the classical assumption requirements, which means that the data can be processed for further testing. The classical assumption test used in this study is the heteroscedasticity and multicollinearity test.

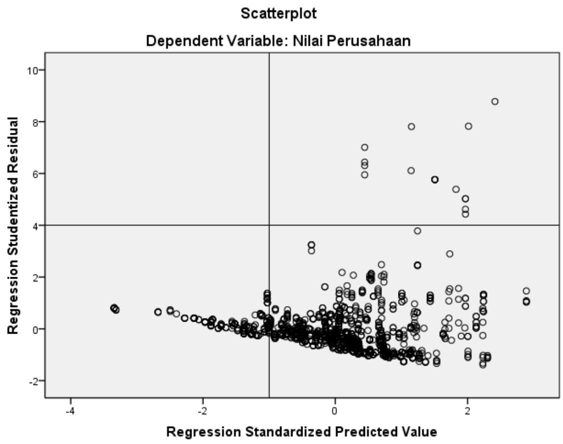

Figure 1. Scatterplot of the Heteroscedasticity Test of Firm Value Variables

Based on Figure 1, it can be concluded that the research data does not have heteroscedasticity symptoms because the plots do not form a certain pattern and are scattered. Meanwhile, based on the multicollinearity test, the results of the calculations show a VIF value of 1,023, which is greater than 1 and less than 10, indicating that this model is free from multicollinearity problems. To test the hypothesis, the researcher uses a simple mediation analysis with the Andrew F. Hayes in (Chairudin & Sari, 2021) SPSS 24 application and the PROCESS modification.

Table 3. The Institutional Ownership Coefficient Model and Firm Value

	The value of the company		
Predictor	**Coeff.**	**SE**	**P**
Institusional Ownership	0,4363	0,0401	0,000
Constant	0,0309	0,219	0,1593
$R^2 = 0,0844$			
F = 118,5376			

Source: data processed by the author

Table 3 is intended to answer the first hypothesis, namely the effect of institutional ownership on firm value. Based on the results of the analysis that can be seen in table 3, the results show that institutional ownership has an effect on firm value with a significance value of 0.000. This means that institutional ownership has an effect on firm value. Table 3 also shows that the amount of R2 is 0.0844, which means that the firm value is influenced by institutional ownership of 8.44%. Institutional ownership is proven to play a role in the creation of corporate value. However, it is essential to remember that the impact of institutional ownership on corporate profits is not always positive. In some cases, institutional investors may hold a short-term vision focusing on quick profits or influence companies to take high risks for higher returns. This can adversely affect the sustainability and long-term health of the company. In addition, the impact of institutional ownership also depends on the company's management strategy, the quality of products or services offered, competition in the market, economic conditions, and other factors. Therefore, while institutional ownership can benefit a company, it is essential to manage wisely and focus on aligning the company's long-term vision with the views of institutional investors.

Institutional ownership can provide effective monitoring of the opportunistic attitude of management in making a business decision that is more concerned with the interests of the manager/agent ((Clay, 2002); (Jensen & Meckling, 2019); (Rachmat & Waspada, 2020)). Institutions as owners have a qualified capacity when compared to individuals as owners. The institution has experience in managing a company, which can be passed on to its subsidiaries. Institutions have experience and expertise in managing companies that they can pass on to their subsidiaries or investment portfolios. A holding company usually allows institutions to organise and manage subsidiaries in different sectors or industries. Thus, it is hoped that it will be able to suppress potential conflicts that arise due to different interests between company owners and company managers. This alignment is expected to make investors more interested in investing(((Bhattacharya & Graham, 2009); (Navissi & Naiker, 2006); (Thanatawee, 2014)).

Table 4. The Coefficient Model of Institutional Ownership, Profitability, and Firm Value

Predictor	Consequence					
	Profitability			Firm Value		
	Coeff.	SE	P	Coeff.	SE	P
Institusional Ownership	2,9521	0,8726	0,007	0,4231	0,0401	0,0000
Profitability				0,0045	0,0012	0,0401
Constant	2,4651	0, 4778	0,000	0,0199	0,221	0,3676
	R^2 = 0,0844			R^2 = 0,0931		
	F = 11,446			F = 65,9199		

Total Effect = 0,4363 ; LLCI = 0,3577 ; ULCI = 0,5149
Direct Effect = 0,4231 ; LLCI = 0,3445 ; ULCI = 0,5017
Indirect Effect = 0,0132 ; BootLLCI = 0,0037 ; BootULCI = 0,0305

Source: data processed by the author

Table 4 is intended to answer the second hypothesis, namely profitability mediating the effect of institutional ownership on firm value. The table above shows that BootLLCI of 0.0037 and BootULCI of 0.0305 does not go through the number 0, so it can be concluded that there is a mediating effect of profitability from the influence of institutional ownership to the value of the company. The coefficient of the indirect relationship is 0.0132, which comes from multiplying the path coefficient of institutional ownership on profitability by the coefficient of profitability on firm value (Rachmat & Waspada, 2020). It is therefore important to remember that profitability mediation is only one aspect of the complex relationship between institutional ownership, profitability and firm value. Several other factors, such as firm size, other ownership structures, business environment, and other external factors may also influence this relationship. Therefore, comprehensive analyses and appropriate statistical testing are needed to better understand the mediating role of profitability in the Indonesian corporate context. The results of this study indicate that institutional ownership has an indirect effect on firm value, but through firm profitability, firms with institutional ownership can increase corporate profits, which in turn will be judged good by investors, thus increasing firm value. So this research is in line with research conducted by Research conducted by (Darmayanti & Sanusi, 2018) states that institutional ownership affects firm value. Research conducted on coal mining companies from 2010 to 2012 in Indonesia shows similar results that institutional ownership has proven to attract investors to invest (Dian, F., &Lidyah, 2014).

Institutional ownership can provide various benefits to the company. It can contribute to increasing company profits, but this is not a certainty and depends on various factors involving the company itself, the business environment, and the institution's investment strategy. With the capabilities possessed by the institution, it is believed to be able to provide support and effective supervision to management in managing the company. Good company management is, of course, able to get the expected profit. The profit earned by the company can be used to increase the company's value. The profit will be distributed to the owners/investors. This makes investors interested in investing their funds in the company so that they can increase the value of the company ((Jennings, 2005); (Mastuti & Prastiwi, 2021); (Thanatawee, 2014)). So with high profitability, the company can distribute dividends to shareholders, which is expected to increase the company's value. This study covers all companies listed on the Indonesia Stock Exchange without being grouped into more specific sectors. Future research will examine per sector to provide a more specific picture.

Conclusions

Based on the results and discussion above, several conclusions can be drawn from this research. First, institutional ownership has an effect on firm value. Firm value describes how much the market believes that all potential future revenues and profits can be recognised by the company's shareholders. In addition, company value can fluctuate with changes in market conditions, company performance, industry trends, and other factors that affect market perceptions of the company. The capabilities of the institution can be used to supervise and direct the management/agents in managing the company so as to increase its value. Second, profitability mediates the effect of institutional ownership on firm value. Institutional ownership can encourage companies to manage well so as to increase company profitability. This is because institutional investors often have a long-term view and are orientated towards stable and sustainable investment returns. As large shareholders, institutions have a significant interest in the long-term success of the companies in which they invest. With high profitability, companies can distribute dividends to shareholders, which is expected to increase company value. This study covers all companies listed on the Indonesia Stock Exchange without being grouped into a more specific sector. While institutional ownership can provide many benefits to the firm, it is important to remember that the success of a firm's profitability also depends on various other factors such as the business environment, competition, product innovation, and changes in market demand. Therefore, the role of institutional ownership as one of the factors contributing to firm profitability should be understood as part of the wider business ecosystem. Further research is expected to be able to examine by sector in order to provide a more specific picture.

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