The Effect of Managerial Ownership, Institutional Ownership, and Foreign Ownership on Firm Value: An Empirical Study on Manufacturing Companies

Prajnya Paramita Artantiwi and Hamidah
Department of Accounting, Economics and Business Faculty, Airlangga University, Jalan Airlangga No. 4 – 6, Surabaya, Indonesia
hamidah@feb.unair.ac.id

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Abstract: The aim of this research is to examine the effect of managerial ownership, institutional ownership, and foreign ownership on firm value. The study's population were manufacturing companies listed on the Indonesian Stock Exchange from 2013–2015. Based on purposive sampling, 315 firms constituted the research sample. Data was analyzed by means of multiple regression analysis, with the help of SPSS 20.0. The results of this study show that institutional ownership has no significant influence on firm value. On the other hand, managerial ownership and foreign ownership have a significant influence on firm value.

1 INTRODUCTION

The rapid development of the business world requires companies to continually adjust to developments occurring in the external environment. In running its business, every company has a vision and a mission in order to achieve company goals (Martono & Harjito, 2005, p. 2). The goals of a company can be divided into three aspects: the first is to maximize profit, the second is to increase the wealth of the owner or the shareholders (stockholders), and the third is to increase the value of the company.

Corporate value can be defined as a certain condition that has been achieved by a company as an image of public trust to the company after going through a process of activity for several years, which means since company established until now.

The ownership structures examined in this research are managerial ownership, institutional ownership, and foreign ownership. Managerial ownership refers to the shareholding of directors, managers, commissioners, or any other parties involved in corporate decision making (Jensen & Meckling, 1976).

According to Nuraina (2012), institutional ownership refers to the stake in a company owned by institutions such as investment companies, insurance companies, etc. Institutional ownership can reduce agency costs as it will result in more optimal and improved supervision.

Several studies have been conducted in relation to the effect of institutional ownership on corporate value. Pakaryaningsih (2008) found a significant influence of institutional ownership on the value of companies listed on the Indonesian Stock Exchange (IDX). However, a non-significant influence of institutional ownership on corporate value was also found. Wiranata and Nugrahanti (2013) conclude that institutional ownership does not affect the performance of firms; in this sense, the majority of owners of institutions participate in corporate control and tend to act on their own behalf, even by sacrificing the minority ownership.

Foreign ownership refers to the percentage of shares owned by foreign investors. Several empirical studies conducted by Abukosim et al. (2014) found that the presence of foreign ownership in a company is able to increase the company's value.

Based on this background, the present research aims to obtain information and empirical evidence regarding the influence of managerial, institutional, and foreign ownership on the value of manufacturing companies listed on the Indonesian Stock Exchange (IDX) in the period 2013–2015.

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2 LITERATURE REVIEW

2.1 Theoretical Base

Agency theory describes the relationship that arises because of a contract between the principal and another party called the agent, where the principal delegates a job to the agent. Agency theory assumes that the principal does not have sufficient information about the performance of the agent. In this sense, the agent has more information than the principal about the self-capacity, the work environment, the company as a whole, and its future prospects. This is what causes the information imbalance between the principal and the agent.

Martono and Harjito (2010) argue that "maximizing the value of the firm is called maximizing the shareholder wealth, which also means maximizing the price of the firm's common stock."

2.2 Research Hypotheses

2.2.1 The Effect of Managerial Ownership on Corporate Value

According to agency theory, the separation between the ownership and management of a company can lead to agency conflict, which is due to the conflicting interests between the principal and the agent, as each of them strives to increase his/her own wealth. This difference in interests is what triggers management to behave in a way that may harm shareholders. As a result, supervision is needed, which will result in agency costs for the company.

A high level of managerial ownership will ensure that managers actively work for the benefit of the shareholders, themselves included, so as to increase the value of the company and benefit the shareholders. Research conducted by Bhabra (2007), Chen and Steiner (1999), and Wahyudi and Pawestri (2006) shows that managerial ownership has a significant influence on firm value. The results of these studies support agency cost theory, which states that managerial ownership is an effective mechanism for overcoming the agency problem that impacts negatively upon company value. Applying the theoretical base and the research results described above, the first hypothesis can be formulated as follows:

H1: Managerial ownership positively affects corporate value

2.2.2 The Effect of Institutional Ownership on Corporate Value

Agency theory suggests that institutional ownership can act as a monitoring agent, with the role of providing oversight of the managerial side through supervision focusing on the proportion of ownership of each institution in a company (Wahidahwati, 2001). Research conducted by Navissi and Naiker (2006) and Vintila and Gherghina (2015) shows that institutional ownership has a significant influence on firm value. A high level of institutional ownership will increase the institutional role in supervising the performance of managers. In combining the theoretical base and the research results described above, the second hypothesis can be formulated as follows:

H2: Institutional ownership positively affects corporate value.

2.2.3 The Effect of Foreign Ownership on Corporate Value

Multinational companies have the ability to increase stock prices more than national companies. This is because foreign ownership will result in a positive influence on the company, such as the training conducted by foreign companies to meet skilled labor need and the existence of trained labor employed in domestic companies (Fanani & Hendrick, 2016).

Empirical research conducted by Al-Khouri et al. (2004), Fanani and Hendrick (2016), and Wei et al. (2005) shows that foreign ownership can increase the value of a company, since the presence of foreign ownership will result in a positive impact on the company. Applying the theoretical base and the research results described above, the third hypothesis can be formulated as follows:

H3: Foreign ownership positively affects corporate value.

3. RESEARCH METHODOLOGY

3.1 Research Approach

With regard to the problem under investigation, this study utilizes an explanatory research approach, which aims to provide an explanation of the relationship (causality) between variables through hypotheses testing (Sugiyono, 2012, p. 21). Based on a quantitative approach, this research can also be understood as confirmatory research, since it focuses on theoretical confirmation of a particular research object, either for explanation or prediction (Sugiyono, 2012, p. 36).

3.2 Data Collection Procedure

The data collection procedure used in this study was document analysis, through collecting secondary data from the www.sahamok.com website, the Indonesian Stock Exchange (IDX) website (www.idx.co.id), and the www.yahoofinance.com website during the period of 2013–2015.

3.3 Population and Sampling

A purposive sampling method was used in this research, which is sample determination technique with certain considerations (Sugiyono, 2012, p. 96).

4. DATA ANALYSIS AND DISCUSSION

4.1 Description of Research Subjects and Objects

The research subjects in this study were companies engaged in the manufacturing sector, listed on the Indonesian Stock Exchange (IDX), that had published financial statements for the period 2013–2015. Since there are many manufacturing companies in Indonesia and they are engaged in a homogeneous type of industry, a selection of manufacturing companies can be expected to provide representative results from data processing and analysis.

The population in this study was manufacturing companies that met the criteria specified in the purposive sampling process. From the data of 407 manufacturing companies that had published financial statements on the IDX in the period 2013–2015, 315 met the criteria specified in the purposive sampling. The research objects were all the variables studied in this research, i.e. corporate value, managerial ownership, institutional ownership, foreign ownership, and company size.

4.2 Descriptive Statistic

Descriptive statistics were used to provide information on the variables used in this study, i.e. managerial ownership (MANOWN), institutional ownership (INSOWN), foreign ownership (FOROWN), corporate value, which used Tobin's q ratio as an assessment indicator (TOBINS), and company size (SIZE) as the control variable in this research.

Table 1: Descriptive Statistics

	N	Min	Max	Mean	SD
MANOWN	315	0.00	0.74	0.04	0.11
INSOWN	315	0.00	0.60	0.04	0.10
FOROWN	315	0.00	0.99	0.34	0.33
SIZE	315	10.66	14.39	12.30	0.69
TOBINS	315	-6.76	19.02	1.44	2.60
Valid N (listwise)	315				
Valid N (listwise)	315				

Source: Processed Data, 2017

Based on Table 4.1, the average managerial ownership of all sampled companies is 0.038812, with a standard deviation of 0.1099713. The degree of distribution of the managerial ownership data has a variation rate of 283.343%. This shows that the overall managerial ownership of the sampled companies is heterogeneous, meaning that there are companies with relatively different percentages of managerial ownership, but also companies that do not have managerial ownership.

Institutional Ownership (INSOWN) has a minimum value of 0.0000 and a maximum value of 0.5971. The average institutional ownership of all the sampled companies is 0.042550, with a standard deviation of 0.0997606. The degree of distribution of the institutional ownership data has a variation rate of 234.455%. This shows that the overall institutional ownership of the sampled companies is heterogeneous, meaning that the percentage of institutional ownership of each company is relatively diverse, in addition to there being companies with no institutional ownership.

Foreign Ownership (FOROWN) has a minimum value of 0.0000 for 99 manufacturing companies, meaning that about 30% of manufacturing companies in the period 2013–2015 had no foreign ownership. The average foreign ownership of all the sampled companies is 0.342058, with a standard deviation of 0.3250774. The rate of distribution of the foreign ownership data has a variation rate of 95.04%. This shows that the overall ownership of the sampled companies is homogeneous, meaning that the percentage of foreign ownership of each company is relatively the same, although there are also companies that do not have any foreign ownership.

The average size of companies owned by all the sampled companies is 12.304000, with a standard deviation of 0.6901883. The rate of distribution of the company size data has a variation rate of 5.61%. This shows that company size in the overall research is relatively uniform, where each company is of a comparatively similar size and with the relatively same amount of total assets.

The average corporate value for all the sampled companies is 1.445499, with a standard deviation of 2.5499268. The level of distribution of the corporate value data has a variation level of 176.40%. This shows that the overall value of the companies in the research is heterogeneous, meaning that each company has a relatively diverse corporate value.

4.3 Model Analysis and Hypotheses Testing

This research used multiple linear regression to test the hypotheses. To obtain results that are free from bias, a classical assumption test was carried out.

4.3.1 Classical Assumption Test

To ensure that the results of the hypotheses testing were free from bias in the multiple linear regression model, a classical assumption test was carried out. The classical assumption test in this study used four tests: a normality test, an autocorrelation test, a multicollinearity test, and a heteroscedasticity test. The classical assumption test was performed with the help of SPSS 20.0 software.

4.3.2 Analysis of the Multiple Linear Regression Model

Analysis of the multiple linear regression model aimed to determine the effect of managerial ownership (MANOWN), institutional ownership (INSOWN), foreign ownership (FOROWN), and firm size (SIZE) –as the control variable – on company value, projected with Tobin's q (TOBINS), at manufacturing companies listed on the Indonesian Stock Exchange during the observation period 2013-2015 and which met the target population criteria. The result of the multiple linear regression analysis are presented in Table 4.2.

Table 2: Results of the Multiple Linear Regression Model

Model	Unstandardized Coefficients		Stand Coeff	t	Sig.
	B	Std. Error	Beta		
(Constant)	-2.19	0.39		-5.58	0.00
MANOWN	0.78	0.27	0.18	2.90	0.01
INSOWN	0.05	0.23	0.01	0.21	0.83
FOROWN	0.16	0.07	0.15	2.40	0.02
SIZE	0.22	0.03	0.43	7.03	0.00

Source: Processed Data, 2017

Based on the results in Table 4.2, the multiple linear regression equation can be formulated as follows:

TOBINS = -2,194 + 0,783 MANOWN + 0,049 INSOWN + 0,163 FOROWN + 0,224 SIZE + *e*

The regression coefficient as a positive value indicates the occurrence of unidirectional change between the independent variables and the dependent variable. In this sense, a negative value indicates the opposite relationship between the independent variables and the dependent variable.

4.3.3 Hypotheses Testing

4.3.3.1 Coefficient Determination Test Result

A coefficient determination test was conducted to determine the effect of all the independent variables on the value of the company. The coefficient determination test was measured by the Adjusted R Square resulting from the multiple linear regression analysis. The coefficient determination test results are presented in Table 4.8.

Table 3: Coefficient Determination Test Results

Model	R	R Square	Adjusted R Square
1	.454[a]	.206	.192

Source: Processed Data, 2017

Based on the results in Table 4.3, the Adjusted R Square value obtained is 0.192 (19.2%). This shows that the independent variables used in this study can predict the company value of manufacturing companies by 19.2%, while the remaining 80.8% is influenced by other variables not used in this study.

4.3.4 Hypotheses Proofing

This study aims to determine the effect of managerial ownership, institutional ownership, and foreign ownership on corporate value. The sample for this research was manufacturing companies listed on the Indonesian Stock Exchange (IDX) from 2013 to 2015, which presented financial statements and completed the required data during the study period.

4.3.4.1 The Effect of Managerial Ownership on Corporate Value

Table 4: Test Results of the Effect of Managerial Ownership on Corporate Value

Variable	Regression Coefficient	Sig	Conclusion
MANOWN	0,783	0,004	Positive Effect

Source: Processed Data, 2017

Based on the results of the multiple linear regression test in Table 4.4, since the significance level is 0.004, and therefore the significance level of count < trust level (0.05), it can be concluded that managerial ownership has a positive and significant effect on firm value.

The value of the managerial regression coefficient is 0.783, so it can be concluded that managerial ownership can increase the value of a company. The positive value of the regression coefficient shows that there is a unidirectional relationship between managerial ownership and firm value, meaning that if managerial ownership increases once, the value of the firm will increase by 0.783 times.

4.3.4.2 The Effect of Institutional Ownership on Corporate Value

Table 5: Test Results of the Effect of Institutional Ownership on Corporate Value

Variable	Regression coefficient	Sig	Conclusion
INSOWN	0,049	0,832	Insignificant positive effect

Source: Processed Data, 2017

Based on the results of the multiple linear regression test in Table 4.5, since the significance level is 0.832, and therefore the significance level of count > trust level (0.05), it can be concluded that institutional ownership has a positive but non-significant effect on corporate value.

Since the value of the institutional ownership regression coefficient is 0.049, it can be concluded that institutional ownership can increase the value of the company. The positive value of the regression coefficient indicates that there is a unidirectional relationship between institutional ownership and corporate value, meaning that when institutional ownership increases once, the value of the firm will increase by 0.049 times. According to the level of significance and the regression coefficient with regard to the effect of institutional ownership on company value, institutional ownership has no effect on firm value. In this sense, H2 (institutional ownership affects company value) is rejected.

4.3.4.3 The Effect of Foreign Ownership on Corporate Value

The influence of foreign ownership on company value in this research was analyzed by using the t test produced in the multiple linear regression model. The result of the multiple linear regression analysis regarding the effect of foreign ownership on company value is presented in Table 4.6.

Table 6: Test Results for the Effect of Foreign Ownership on Corporate Value

Variable	Regression coefficient	Sig	Conclusion
FOROWN	0,163	0,017	Significant positive effect

Source: Processed Data, 2017

According to the results of the multiple linear regression test in Table 4.6, since the significance level is 0.017, and therefore the significance level of count < trust level (0.05), it can be concluded that foreign ownership has a positive and significant effect on company value.

The value of the foreign ownership regression coefficient is 0.163, meaning that foreign ownership can increase the value of a company. The positive value of the regression coefficient shows a unidirectional relationship between foreign ownership and company value, so if foreign ownership increases once, then the value of the firm will increase by 0.163 times. Based on the level of the significance and regression coefficient relating to the effect of foreign ownership on company value, foreign ownership has a positive and significant effect on the value of the company. Therefore, H3 (foreign ownership has a positive effect on company value) is accepted.

5. CONCLUSIONS AND SUGGESTIONS

5.1 Conclusions

Based on the results of the research analysis, the following can be concluded:

1. Managerial ownership positively affects company value. The results show that the greater the ownership of managers in a company, the less likely the managers are to perform actions that can harm the company.
2. Institutional ownership does not have a positive effect on corporate value. The results show that institutional ownership can reduce opportunistic behavior by managers through active supervision. Active supervision will become passive as the amount of institutional ownership in the firm increases due to the possibility of compromise between institutional shareholders and managers acting for their own interests regardless of other shareholders.
3. Foreign ownership positively affects the value of the company. The greater the foreign ownership, the greater rights that shareholders have in decision making, thus indirectly providing monitoring on managerial performance, which will affect the value of the company.

5.2 Suggestions

Based on the research results, the author suggests that future research examines other industrial sectors, such as the financial industry sector, which have different characteristics from the manufacturing industry.

For investors, the results can be used to consider possible future investments. In this sense, investments or stock purchases are preferable in companies with foreign ownership and managerial ownership because the presence of foreign and managerial ownership will have a positive impact on the company's operational performance, which will increase the value of the company and therefore the welfare of the shareholders.

For the company, the results can be used to overcome any agency problems that occur within the company, and thus reduce the information gap between shareholders and managers so as to improve the performance of the company and increase corporate value.

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