THE INFLUENCE OF OWNERSHIP STRUCTURE, DEBT POLICY, AND FIRM GROWTH ON FIRM VALUE (Empirical Study of Manufacturing Companies Listed on the Indonesian Stock Exchange)

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Abstract: This study was conducted with the aim of knowing the effect of managerial ownership, institutional ownership, debt policy and firm growth simultaneously and partially on firm value. The sector of manufacturing companies listed on the Indonesia Stock Exchange (BEI) 2013-2019. The independent variables used in this study are managerial ownership, institutional ownership, debt policy and firm growth. The dependent variable used in this study is Firm Value with PBV indicator. This study uses secondary data with a sample size of 24 companies. Data analysis was carried out by using multiple linear regression with the help of SPSS software. The results show that simultaneously managerial ownership, institutional ownership, debt policy and company growth have an effect on Firm Value with an F-count of 45.080 with a significance of 0.000 <0.005. Partially, managerial ownership, institutional ownership, debt policy and firm growth have a significant effect on firm value.

Keywords: managerial ownership, institutional ownership, debt policy, firm growth, firm value

1. Introduction

In modern financial management practices, company leaders or managers are required by the principal to achieve the company's goals. Company objectives are related to the success of a manager managing the company in improving company performance. Firm value is very important because high company value will be followed by high shareholder prosperity (Bringham and Daves, 2013). Meanwhile, Sartono (2010) states that firm value is determined by the value of its own capital and the value of debt. Firm value is closely related to the company's ability to increase the prosperity of its shareholders. This shows a positive signal that if the company is well managed, it will be able to continue to develop and compete. In this stage, the owner delegates authority to the manager or agent to take action in an effort to advance the company.

This study will use four variables that are predicted to affect firm value, namely managerial ownership, institutional ownership, debt policy and firm growth. Another reason the researchers chose these four variables was because these variables represented important decisions in financial management. This decision is a funding decision (debt policy), while

managerial ownership, institutional ownership and firm growth are predicted to have an effect on firm value. In this study, the researchers found a phenomenon that occurs in manufacturing companies listed on the Indonesia Stock Exchange in the 2013-2019 observation period, namely the decline the value of the company.

Managerial ownership is the amount of share ownership by management of all share capital of the company. The greater the management's ownership in the company, the more likely the management will try to improve its performance, for the benefit of shareholders, and for its own interests (Suastini *et al*. 2016). The objectives of managerial shareholding can be to reduce managers' incentives to consume luxuries, reduce shareholder wealth, or engage in other value-maximizing behavior. Suastini *et al*. (2016) state that managerial ownership is the amount of share ownership by management of all company share capital. The greater the management's ownership in the company, the more likely the management will try to improve its performance, for the benefit of shareholders, and for its own interests. Meanwhile research by Ruan *et al*. (2011) states that managerial ownership has a positive effect on firm value.

Institutional ownership which generally can act as a party to monitor the company. According to Sofyaningsih and Hardiningsih (2011), companies with large institutional ownership indicate their ability to monitor management. The greater the institutional ownership, the more efficient the utilization of company assets and it is hoped that it can act as a prevention against waste by management. Institutional ownership has an important role in monitoring management.

The debt policy is an external funding decision. This debt policy is carried out to increase company funds that will be used to meet the company's operational needs. Companies need large funds to fund corporate capital expenditures. This source of funding can be obtained internally, namely retained earnings or externally by making loans in the form of debt or issuing shares in the capital market. In addition, the use of debt can also increase the risk. Companies that use debt to fund companies and are unable to pay off their debts will be threatened with liquidity. It means, the company is considered risky and if it has a large portion of debt in the capital structure. On the other side, if the company uses small or no debt, they are considered unable to make additional use the external capital that can improve company operations (Mamduh, 2016).

Firm growth is expected by internal and external parties of a company because it can provide a positive aspect for them. From an investor's point of view, the growth of a company is a sign that the company has a profitable aspect. It means, they expect the rate of return on their investment to give better results. Fast growth also forces the human resources to contribute optimally. Growth is expressed as the growth in total assets, where the total assets of the past will describe future profitability and future growth (Dewi, *et al*. (2014), Sofyaningsih and Hardiningsih (2011)).

Based on the above background, the writer is interested in conducting research with the title: The Effect of Ownership Structure, Debt Policy and Firm Growth on Firm Value (Empirical Study of Manufacturing Companies Listed on the Indonesia Stock Exchange).

2. Literature Review

Firm Value

Firm value is the market value of corporate debt and equity ”(Keown et.al, 2010: 35). Meanwhile, firm value can be expressed as the price of the company in the open market, and because it is valued by the market, it is called market value (Jogiyanto, 2015: 85).

This study will calculate the value of the company using the ratio of the stock price to the company's book value or price book value (PBV), where the company's ability to create value relative to the amount of invested capital. A high PBV reflects a high share price compared to the book value per share. The higher the share price, the more successful the company is in creating value for shareholders. The company's success in creating this value certainly gives hope to shareholders in the form of greater profits (Sartono, 2010). In simple terms, it states that price to book value (PBV) is a market ratio used to measure the performance of the stock market price against its book value. With the following formula:

$$\text{Price to Book Value} = \frac{\text{Market price per share}}{\text{Book value per share}} \times 100\%$$

Ownership Structure

Managerial Ownership

Share ownership by management will lead to an oversight of the policies taken by company management. According to Marcus in Scott et al. (2017: 19), managers get the opportunity to be involved in share ownership with the aim of equalizing with shareholders. Through this policy, it is hoped that managers can produce good performance and direct dividends at a low-level. With a low dividend setting, the company has high retained earnings so that it has relatively high internal sources of funds to finance future investments.

This study will calculate managerial ownership using the following formula:

$$\text{Managerial Ownership} = \frac{\text{Number of Shares Owned by the Management}}{\text{Outstanding Total Shares}} \times 100\%$$

Institutional Ownership

Institutional ownership is the proportion of share ownership by institutions, in this case the company founding institutions, not public institutional shareholders. It measured by the percentage of shares owned by internal institutional investors.

The majority of institutional ownership will reduce the probability of the company being acquired, thereby increasing the manager's desire to increase ownership in the company. According to Fitri and Mamduh (2003) in Wahyudi and Pawestri (2006), the higher the institutional ownership, the more external supervision of the company will be increased. The higher the managerial ownership, the less opportunity for investors to exercise control over the company.

This study will calculate institutional ownership using the following formula:

$$\text{Institutional Ownership} = \frac{\text{Shares Owned By Institutional Investors}}{\text{Outstanding Total Shares}} \times 100\%$$

a. Debt Policies

According to Djarwanto (2010: 34) states that debt is a company's obligation to other parties to pay a certain amount of money or deliver goods or services on a certain date. Debt is also a source of external financing that is used by companies to finance their funding needs.

This study will calculate the debt policy using DER or debt to equity ratio which reflects the company's ability to use all of its liabilities as indicated by several parts of its own capital used to pay debt. With the following formula:

$$\text{Debt to Equity Ratio} = \frac{\text{Debt}}{\text{Equity}} \times 100\%$$

b. Firm Growth

Firm growth is the company's ability to increase its size. Basically, firm growth is influenced by several factors, namely external, internal factors and the influence of the local industrial climate. According to Brigham and Daves (2013: 112), a high growth company requires a larger source of funds from external parties.

This study will calculate the firm growth using changes in total assets. According to Dewi et al. (2014), firm growth is the difference in total assets owned by the company in the current period and in the previous period to the total assets of the previous period.

$$\text{Change in Assets} = \frac{\text{Total Assets}_t - \text{Total Assets}_{t-1}}{\text{Total Assets}_{t-1}} \times 100\%$$

3. Research Method

Type of research

This type of research the researcher uses is explanatory research with a quantitative approach.

Location of Data Acquisition

The location of this research was carried out in the corner of the IDX STIESIA Surabaya, ICMD (Indonesian Capital Market Directory) and the IDX website (www.idx.co.id). The time used in this study was 2013-2019.

Population, Sample, and Sampling Technique

The population used in this study were 155 manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2013 to 2019 and 24 companies that met the criteria. Therefore, the sampling method in this study using saturated sampling. This is in accordance with the opinion of Sugiyono (2014: 122) which states that saturated sampling is a sampling technique when all members of the population are used as samples.

4. Result And Discussion

Simultaneous Regression Test (Test F)

The purpose of this study was to determine the effect of managerial ownership (X1), institutional ownership (X2), debt policy (X3), and firm growth (X4), simultaneously or partially on firm value (Y). Simultaneous test results show that the F-count value is 45.080 with a significance of 0.000 <0.005. Based on these results it can be concluded that managerial ownership (X1), institutional ownership (X2), debt policy (X3), and firm growth (X4) simultaneously affect firm value (Y).

Partial regression test (t test)

Partial regression test is used to determine the effect of each independent variable, namely managerial ownership (X1), institutional ownership (X2), debt policy (X3), and firm growth (X4) on firm value (Y). The following will describe the effect of the four independent variables on firm value:

The Effect of Managerial Ownership (X1) on Firm Value (Y)

Managerial Ownership Variable (X1) partially has a significant effect with the direction of the positive relationship to firm value, this result is indicated by a coefficient value of 0.205 and a significance value of 0.009< 0.05.

The positive relationship that exists in the influence of managerial ownership variables on firm value means that large managerial ownership can increase the company's stock price which results in an increase in firm value. Managerial ownership is one of the tools that can be used to reduce agency conflict. It means, the managers are motivated to overcome agency problems so that they can improve company performance. Managerial interests will align the interests of management and shareholders so that they will benefit directly from the decisions taken and bear the losses from making wrong decisions. Managerial ownership will encourage management to increase firm value.

The Effect of Institutional Ownership (X2) on Firm Value (Y)

The institutional ownership variable (X2) partially has a significant effect with the direction of the positive relationship to firm value, this result is indicated by a coefficient value of 0.178 and a significance value of 0.010< 0.05.

The positive relationship that exists in the influence of institutional ownership variables on firm value means that large institutional ownership can increase the company's stock price which results in an increase in firm value. Institutional ownership is one of the tools that can be used to reduce agency conflict. The higher the level of corporate institutional ownership, the stronger the level of control exercised by external parties to the company. So, the agency cost that occurs within the company will decrease and the firm value can also increase.

The Effect of Debt Policy (X3) on Firm Value (Y)

The debt policy variable (X3) partially has a significant effect with the direction of the positive relationship to firm value, this result is indicated by a coefficient value of 0.109 and a significance value of 0.023< 0.05.

The positive relationship that exists in the influence of the variable debt policy on firm value means that a large debt policy can increase the company's stock price which results in an increase in firm value. The results of the analysis prove that debt policy has a positive and significant effect on firm value. This means that the high and low ratio of debt to equity have implications for the high and low value of the company. The influence of debt policy on firm value indicates that the cost of debt and the cost of equity are relatively equivalent and each has advantages and disadvantages. The use of debt capital can be beneficial if the business climate is in good condition. So, the benefits of using debt can be greater than interest costs. However, in an uncertain business climate, the benefits of using debt can be smaller than the interest costs incurred, so that it has a positive and significant to firm value

The Effect of Firm Growth (X4) on Firm Value (Y)

The firm growth variable (X4) partially has a significant effect with the direction of the positive relationship to firm value, this result is indicated by a coefficient value of 0.288 and a significance value of 0.001< 0.05.
The positive relationship contained in the influence of the firm growth variable on firm value means that a large company growth can increase the company's stock price which results in an increase in firm value. A company with good asset growth is a company that is able to manage resources to generate profits so that it can add to the assets it already has. Companies with large asset growth are companies that have a good performance in generating profit.

Result of the Coefficient of Determination (R2)
The coefficient of determination (R2) is used to explain the contribution of all independent variables to explain their effect on the dependent variable. In this study, the R value of 0.763 indicates a strong influence between firm value and exogenous variables because the R value is above 0.5. The value of R Square (R2) = 0.582 shows that 58.20% of the NP can be explained jointly by variations in institutional and managerial ownership, debt policy, firm growth, and financial performance. Meanwhile the remaining 41.80% is explained by other variables not included in this research model.

5. Conclusion and Suggestion

Conclusion

Based on the results of the analysis of the multiple linear regression tests conducted previously, several conclusions can be drawn as follows.

1. The results show that managerial ownership, institutional ownership, debt policy and firm growth have a simultaneous influence on the value of manufacturing companies listed on the IDX.
2. The partial hypothesis test results will be explained in detail as follows:
3. Managerial ownership partially has a significant effect with the direction of the positive relationship to firm value. Based on these results it can be concluded that any increase in managerial ownership will always be followed by an increase in firm value, and applies to the opposite condition.
4. Institutional ownership partially has a significant effect with the direction of the positive relationship to firm value. Based on these results it can be concluded that any increase in institutional ownership will always be followed by an increase in firm value, and applies to the opposite condition.
5. Debt policy partially has a significant effect with the direction of a positive relationship to firm value. Based on these results it can be concluded that any increase in debt policy will always be followed by an increase in firm value, and applies to the opposite condition.
6. Firm growth partially has a significant effect with the direction of a positive relationship to firm value. Based on these results it can be concluded that any increase in debt policy will always be followed by an increase in firm value, and applies to the opposite condition.

Suggestion

Based on the results of this research, some considerations that can be conveyed through suggestions:

1. Can add other variables that can affect firm value so that other variables that can affect firm value can be identified. For manufacturing companies.
2. Manufacturing companies with an unbalanced ownership structure can reconsider the policy because the greater the managerial ownership, the institutional shareholders cannot effectively supervise the manager on opportunistic actions.
3. Manufacturing companies that still use external funds in their debt policies can be more careful because excessive use of debt will have an impact on the risks. It means, the company's inability to pay off its obligations.
4. Manufacturing companies that have a slow growth rate should improve their asset management activities so that the assets used can be used properly and have an impact on total sales.
5. Companies should immediately improve the performance in terms of good asset management, the number of sales, and decide on the optimal use of sources of funds. That can be balanced debt with internal capital, so the company is able to generate profits that will have an impact on the company's welfare.
6. For investors, this research can be used to find out how much improvement a company's performance is, so that investors can consider ownership structure variables, debt policy, company growth and financial performance to provide information in investing in manufacturing companies listed on the IDX.

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Attachment

Simultaneous Regression Test (Test F)

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11991.347	4	2398.269	45.080	.000[a]
	Residual	8618.521	162	53.201		
	Total	20609.868	166			

a. Predictors: (Constant), X1, X2, X3, X4

b. Dependent Variable: NP

Partial Regression Test (t test)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.034	6.179		.491	.202
	Managerial Ownership (X1)	.162	.064	.205	2.527	.009
	Institutional Ownership (X2)	.267	.064	.178	4.175	.010
	Debt Policy (X3)	.064	.029	.109	2.223	.023
	Firm Growth (X4)	.453	.066	.288	6.866	.001

a. Dependent Variable: Firm Value (Y)

The Coefficient Of Determination (R2)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.763[a]	.582	.569	7.29388	1.950

a. Predictors: (Constant), X1, X2, X3, X4

b. Dependent Variable: Firm Value