

# The Effect of Capital Structure, Managerial Ownership, Institutional Ownership, and Dividend Policy on Company Value.

## (Study Cases in Manufacturing Companies Listed on the Indonesia Stock Exchange in 2018-2020)

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**Abstract:** This study aimed to examine the effect of Capital Structure, Managerial Ownership, Institutional Ownership, and Dividend Policy on Company Value. The research is quantitative research using multiple linear regression analysis with the help of SPSS software. The Population in study this is company manufacturers listed on the Indonesia Stock Exchange (IDX) in 2018-2020. The sampling technique in this research is using purposive sampling method, the sample used is 27 mining companies that meet the criteria with 76 data use as research sample. The results of the research analysis show that managerial ownership and dividend policy have an effect on company value, while capital structure and institutional ownership no effect on company value.

**Keywords:** Capital structure, managerial ownership, institutional ownership, dividend policy, value company.

### I. Introduction

Along with the development of the economic situation, competition in business is getting tighter. Every company tries to improve its performance and develop that business. The company is said to grow up if the company gets the maximum profit. In addition, companies that are established must have goals, both in the short and long term. The short term goal is to make a profit, while the long-term goal is to provide prosperity for the owners or shareholders of the company, and maximize company value as reflected in the company's stock price (Lasmanita, et al. 2019; Aris & Nadia, 2018; Reza & Dina, 2020). Increasing company value is very important, because it can be increase the prosperity of company owners and shareholders so that company goals can be as expected (Ayu, 2017; Aris & Nadia, 2018; Arinie, 2018).

High company's value interes investors to invest in the company Investor have a perception of the level of succeeded of the company which is often associated with stock prices. If higher stock price of a company, the higher the value of the company. The maximum value of the company can be achieved if the shareholders hand over the management of the company to more competent managers and commissioners. The Signal theory says that investment spending by investors gives a positive signal about company growth in the future, so that it can increase company value (Linda & Nyoman, 2019; Lasmanita, et al, 2019; Dewi & Anindya, 2018). Greater shareholder value can be achieved if company management is able to establish good cooperation with stakeholders in making financial decisions. If the behavior carried out by the manager with other parties goes well, there will be no problems between the two parties. So as to avoid problems between managers and shareholders (agency problem) (Nursanita, et al, 2019; Linda & Nyoman, 2019).

The difference in interests between managers and shareholders results in the need for good corporate governance. So as to be able to provide a balance between the various interests that provide benefits to the company. corporate governance mechanisms can be in the form of managerial ownership and institutional ownership. The implementation

of corporate governance is an important part of the company so that added value can be created for all interested parties (Kadek& I Gede, 2017).

Success in creating company value can provide hope for shareholders regarding greater profits (Kadek& I Gede, 2017; Cristy et al, 2018). Price Book Value (PBV) is the market ratio used to measure the performance of the price every share against its book value. Movement of stock prices in the capital market. Every company that has gone public has the desire to show investors that the company is the right alternative for investment (AA Ngurah& Putu, 2016; Linda &Nyoman, 2019).

One of the factors that can affect the value of the company is the capital structure of a company. Capital structure is the key to improving company performance and productivity. In theory, capital structure is the financial policy (company funding policy) that is used to determine the mix between debt and equity. Therefore, the capital structure is measured by the ratio of debt to equity. The ratio used to see the effect of creditor loans, whether used as additional capital or as a source of funds to purchase assets, is the debt ratio which can be seen in the capital structure, namely the debt to equity ratio (Reza & Dina, 2020). In determining the optimal capital structure target, the role of company management is required.

Other factors that influence company value are managerial ownership, institutional ownership and dividend policy. An increase in firm value can be achieved with managerial ownership, according to Jensen and Meckling (1976) stating that greater management ownership has an impact on reducing agency costs and aligning conflicts of interest between management and shareholders so that firm value can be maximized. The existence of institutional investors is considered capable of being an effective monitoring of every decision taken by managers (Reza & Dina, 2020). High levels of institutional ownership can influence investors in the application of broader supervision. So that the opportunistic behavior of managers can be prevented. Dividend policy in the company also affects the value of the company. Dividend policy is an action taken by a company in determining how much profit will be distributed to shareholders in the company. According to the bird in the hand theory, shareholders prefer profits from dividends compared to capital gains (Reza & Dina, 2020). Dividend policy is a policy that is considered to be able to provide a signal for investors in assessing whether a company's performance is good or bad.

## **II. Literature Review**

### **2.1. Theory Agency**

Theory Agency is theory that is used as a basis for business practice. Jensen and Meckling (2008), state that agency theory is a contract made between principals or shareholders (stakeholders) with agents. In this theory the principal is the shareholder where the party giving orders to the agent to act on behalf of the principal, while the agent is intended as a management party who is trusted by the principal to carry out activities in managing the company.

### **2.2. Signaling Theory**

Theory signal according to Brigham and Houtson (2006) an action taken by company management that gives instructions to investors about how management views the company's prospects. This theory explains the reasons companies have the urge to provide financial report information to external parties. Information is an important element for investors and business people because it provides information, notes, or descriptions for the survival of a company. This signaling theory emphasizes the importance of information issued by a company.

### **2.3. Capital Structure**

Capital structure is a permanent financing consisting of long-term debt, preferred stock, and shareholder's capital (Weston and Copeland, 1997). Capital structure is a permanent cost shown by the balance between own capital and debt. The balance of these two things will affect the level of risk and return expected by the company (Slamet, et al 2019). From the various descriptions above, it can be concluded that capital structure is a comparison between long-term debt and capital.

### **2.4. Managerial Ownership**

Managerial ownership is a situation where managers own shares of a company as well as shareholders in the company. Increased managerial ownership will produce an interesting conjecture that the value of the company will also increase. With large management ownership it will be more effective in monitoring company activities (Kadek& I Gede, 2017). In addition, Jensen and Meckling (1976) said that management will also be more active in fulfilling the interests of shareholders, so that agency problems will be reduced and company performance will increase.

### 2.5. Institutional Ownership

Institutional ownership is the most influential party in every decision-making because of its nature as the majority shareholder, besides that it is the party that controls management in making company financial policies. The higher level institutional ownership in the company, the control over the company is getting stronger, because the institution has a large enough right to take ownership of a company's shares. Jansen and Meckling (1976) (in Labiba, 2021) state that institutional ownership is a component of good corporate governance used in controlling agency problems. Institutional ownership that carries out effective supervision will make management more disciplined in working so that it is easier for management to improve the welfare of shareholders as a whole. With good quality company performance, it will attract the attention of investors and have an impact on increasing share prices which affect the private book value (PBV).

### 2.6. Dividend Policy

Dividend policy is a management policy regarding company profits earned at the end of the year which will be distributed to investors as feedback, or stored as company cash funds (Karina, 2018). When the company prefers to distribute profits to shareholders, the company's internal funds will decrease, but if the dividends distributed are high, it will generate investor confidence to invest, as a result the demand for shares will increase. If the company's stock value increases, the company's value also increases.

### 2.7. Company Value

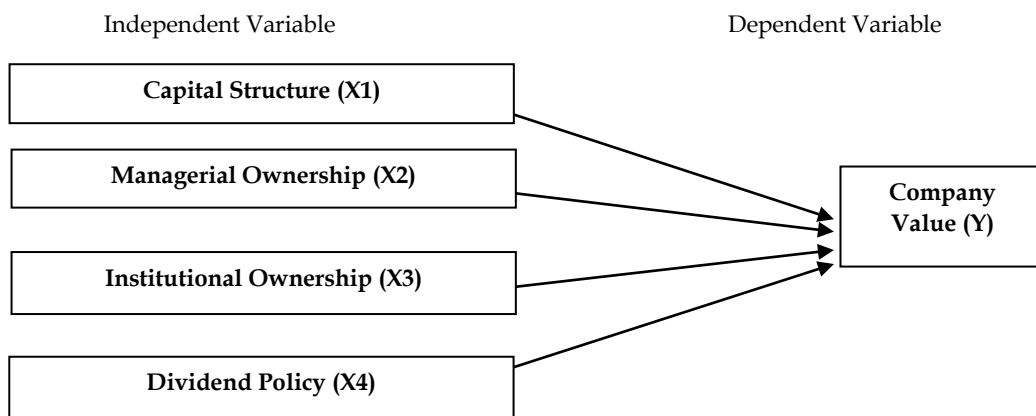
According to Purwaningtyas (2011) company value is a value that describes the equity and book value of a company, which is in the form of book value of total debt, market value of equity, and book value of total equity. If the company value is high, the level of investor prosperity will also increase. Shareholder value will increase if followed by an increase the value of the company is marked by the rate of return on investment.

## III. Identations and Equations

### 3.1. Research Design

This study uses associative quantitative methods as an approach in analyzing research problems because this research uses numbers as variable indicators to answer research problems.

### 3.2. Conceptual



### 3.3. Population and Sample

This study's population this are 195 companies manufacturing that has listed on the Indonesia Stock Exchange (IDX). Purposive sampling is the sampling technique used in this study. The sample for this study was 27 companies, with a total of 81 samples collected over three periods and done outlier data of 5 samples so that sample end used as many as 76 samples.

### 3.4. Types and Sources Data

The type of data this study used secondary data form report annual company manufacturers listed on the Indonesia Stock Exchange (IDX) which can be accessed on the official website of the Stock Exchange Indonesia ([www.idx.co.id](http://www.idx.co.id)) or company website related.

### 3.5. Multiple Linear Regression Analysis

The analytical method used to test the hypothesis is a multiple linear regression analysis model. Multiple linear regression analysis to test the effect of several independent variables on one dependent variable. The test model in this study is stated in the equation below:

$$NP = \alpha + \beta_1 SM + \beta_2 KM + \beta_3 KI + \beta_4 KD + \varepsilon$$

Information:

- $\alpha$  : Constant
- $\beta_1 - \beta_5$  : Coefficient of each variable
- NP : Company Value
- SM : Capital Structure
- KM ; Managerial Ownership
- KI ; Institutional Ownership
- KD ; Dividend Policy
- $\varepsilon$  ; error value

### 3.6. Capital Structure (DER)

Capital structure can be measured by the Debt to Equity Ratio (DER) in where the Debt to Equity Ratio (DER) compares the company's total debt to the company's total equity. The unit of measurement for DER is in percentage. So it can be formulated as follows:

$$DER = \frac{\text{Total Debt}}{\text{Total Capital}} \times 100\%$$

### 3.7. Managerial Ownership (MO)

Managerial ownership is measured by the percentage of total share ownership by directors, management, commissioners and any party directly involved in making company decisions. So it can be formulated as follows:

$$MO = \frac{\text{Share ownership by management}}{\text{Outstanding share}} \times 100\%$$

### 3.8. Institutional Ownership (IO)

Institutional ownership is measured using an indicator of the percentage of share ownership owned by institutions from the total number of outstanding company shares. So it can be formulated as follows:

$$IO = \frac{\text{Share ownership by institution}}{\text{Outstanding share}} \times 100\%$$

### 3.9. Dividend Policy (DPR)

Dividend policy can be measured by the Dividend Payout Ratio (DPR). Where the Dividend Payout Ratio (DPR) compares the dividend per share with profit per unit share. The DPR measurement unit is in percentage. So it can be formulated as follows:

$$DPD = \frac{\text{Dividen per share}}{\text{Earning per share}} \times 100\%$$

### 3.10. Company Value (PBV)

Company value can be measured by Price to Book Value (PBV) which is the market ratio used to measure the performance of stock market prices to book value. This ratio shows how far a company is able to create company value relative to the capital invested. The higher the ratio means that the market believes in the company's prospects. So it can be formulated as follows:

$$PBV = \frac{\text{Price per share}}{\text{Book value per share}} \times 100\%$$

IV. Data Analysis and Discussion

4.1. Descriptive Statistical Analysis

Table 1. Descriptive Statistics

Variables	N	Minimum	Maximum	Means	std. Deviation
Capital Structure	76	0.09	3.61	0.7969	0.66647
Managerial Ownership	76	0,00	0.56	0.12	0.15003
Institutional Ownership	76	0.14	0.90	0.6485	0.18293
Dividend Policy	76	-0.44	39.25	1.1535	4.54361
The value of the company	76	0.26	5.56	1.8224	1.36267
Valid N (listwise)	76				

Source: Secondary data processed by the author, 2022

Based on the descriptive statistical tests in table 1, there is information about the minimum, maximum, average (mean), and standard deviation values of each of the variables studied in this study.

1. The capital structure variable has a minimum value of 0.09 and maximum value of 3.61, while the average (mean) is 0.7969 with a standard deviation of 0.66647.
2. The managerial ownership variable has a minimum value of 0,00 and maximum value of 0,56, while the average (mean) is 0.12 with a standard deviation of 0.15003.
3. The institutional ownership has a minimum value of 0.14 and maximum value of 0,90, while the average (mean) is 0.6485 with a standard deviation of 0.18293.
4. The dividend policy variable has a minimum value of -0,44 and maximum value of 39,25, while the average (mean) is 1,1535 with a standard deviation of 4,54361.

4.2. Classic Assumption Test

4.2.1. Normality Test

Table 2. Normality Test

Information	Unstandardized Residuals
Kolmogorov-Smirnov	
Monte Carlo Sig. (2-tailed)	Sig. 0.053
95% Confidence Intervals	

Source: Secondary data processed by the author, 2022

Based on Kolmogorov-Smirnov exact Monte Carlo obtained Sig (2-tailed) of 0.053 where the value exceeds the significance level of 0,05. The result of this test indicate that the data is normally distributed.

4.2.2. Multicollinearity Test

Table 3. Multicollinearity Test Results

Variables	Collinearity Statistics		Information
	tolerance	VIF	
Capital Structure	0.99	1.01	There is No Multicollinearity
Managerial Ownership	0.502	1,991	There is No Multicollinearity
Institutional Ownership	0.507	1,972	There is No Multicollinearity
Dividend Policy	0.975	1.025	There is No Multicollinearity

Source: Secondary data processed by the author, 2022

From the results test above show score each tolerance value more independent variables big of 0.1 and value more VIFs small of 10, so could concluded that all variables do not have multicollinearity problems.

4.2.3. Heteroscedasticity Test

**Table 4. Heteroscedasticity Test Results**

Variables		Sig (2-Tailed)	Information
Spearman rho	Capital Structure	0.077	There is No Heteroscedasticity
	Managerial Ownership	0.673	There is No Heteroscedasticity
	Institutional Ownership	0.353	There is No Heteroscedasticity
	Dividend Policy	0.541	There is No Heteroscedasticity

Source: Secondary data processed by the author, 2022

Based on table the could is known that whole independent variable in research this show score sig 2-tailed more big of 0.05, up to could concluded that whole independent variable in study this free from symptom heteroscedasticity.

**4.2.4. Autocorrelation Test**

**Table 5. Autocorrelation Test Results**

	Sig (2-Tailed)
Durbin-Watson	1,919

Source: Secondary data processed by the author, 2022

Based on the test results above, it is known that the resulting DW value is 1.919, which means that it is larger (du), namely 1.7399 and smaller (4-du) of 2.2601 (4-1.7399) or  $1.7399 < 1.919 < 2.2601$ . these results were obtained from the DW table with a sample size (N) 76 and a number of independent variables (k = 4) 4. From these results it can be concluded that there is no autocorrelation between independent variables, so the regression equation model is feasible to use.

**4.3. Hypothesis Test**

**4.3.1. Multiple Linier Regression**

**Table 6. multiple Linier regression Result**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	std. Error	Betas		
1 (Constant)	2,389	0.824		2,901	0.005
Capital Structure	-0.176	0.203	-0.086	-0.866	0.390
Managerial Ownership	3,616	1,266	0.398	2,855	0.006
Institutional Ownership	-1,191	1.033	-0.160	-1.153	0.253
Dividend Policy	-0.076	0.030	-0.255	-2,547	0.013

Source: Secondary data processed by the author, 2022

Based on the table, the regression equation can be arranged as follows:

$$NP = 2.389 - 0.176SM + 3.616KM - 1.191KI - 0.076KD + \epsilon$$

Based on equality regression can be interpreted as following:

1. Constant value of 2.389 means that if variables capital structure, managerial ownership, institutional ownership, and dividend policy no changed or considered constant (value 0), then score company is of 2.389.
2. Coefficient regression on variable capital structure shows value -0.176 and signed negative. this show if capital structure rose 1% then level score company will experience decline by 17.6% and vice versa if experiencing capital structure a decrease of 1% then level score company will experience increase by 17.6%.
3. Coefficient regression on variable managerial ownership show value 3.616 and signed positive. This show if managerial ownership rose 1% then level score company will experience enhancement of 361.6%.
4. Coefficient regression on variable institutional ownership show value -1.191 and signed negative, this show if institutional ownership up 1% then level score company will experience decline of 119.1% and vice versa if institutional ownership experience a decrease of 1% then level score company will experience increase by 119.1%.

- Coefficient regression on variable dividend policy show value -0.076 with negative sign. this show if dividend policy up 1% then level score company will experience decline of 7.6 % and vice versa if dividend policy experience a decrease of 1% then level score company will experience increase by 7.6%.

**4.3.2. Simultaneous Test (F Test)**

**Table 7. F Test Results**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	42,749	4	10,687	7,862	0.000 <sup>b</sup>
residual	96,517	71	1,359		
Total	139,266	75			

Source: Secondary data processed by the author, 2022

Based on table the shows the calculated F value of 7,862 with a significance of 0,000 which means the value is significantly smaller than the significance level of = 0,05, so it can be concluded tha the variables of capital structure, managerial ownership, institutional ownership , and dividend policysimultaneously or jointly affect company value.

**4.3.3. Statistical Test (t-Test)**

**Table 8. t Test Results**

Variables	t-count	Sig.	Information
Capital Structure	-,866	0.390	hypothesis rejected
Managerial Ownership	2,855	0.006	hypothesis received
Institutional Ownership	-1.153	0.253	hypothesis rejected
Dividend Policy	-2,547	0.013	hypothesis received

Source: Secondary data processed by the author, 2022

Based on the table, it can be explained as follows:

- Variable capital structure has a significance value of 0.390 greater than of 0.05, so it can be concluded that in this study capital structure has no effect on company value.
- Variable managerial ownership has a significance value of 0.006 less than of 0.050, so it can be concluded that in this study managerial ownership has an effect on company value.
- Variable institutional ownership has a significance value of 0.253 greater than of 0.05, so it can be concluded that in this study institutional ownership has no effect on company value.
- Variable dividend policy has a significance value of 0.013 less than of 0.05, so it can be concluded that in this study dividend policy has no effect on company value.

**4.3.4. Coefficient of Determination Test (R<sup>2</sup>)**

**Table 9. Coefficient of Determination Test Results**

Model	R	R Square	Adjusted R Square	std. Error of the Estimate
1	0.554a	0.307	0.268	1.16593

Source: Secondary data processed by the author, 2022

Adjusted R<sup>2</sup> show value 0.268. this means that of 26.8% variation variable company value could explained by variables capital structure, managerial ownership, institutional ownership, and dividend policy, meanwhile the rest (73.2%) is explained by other variables outside the model studied.

**4.4. Discussion of Research Results**

**1. The Effect Capital Structure on Company Value**

Based on t-test results for variable capital structure, obtained significance value of 0.390 > 0.05, then could pulled conclusion that Hypothesis 1 is rejected. The result show that the capital structure variable has no effect on company value.

**2. The effect Managerial Ownership on Company Value**

Based on t-test results for variable managerial ownership, obtained significance value of  $0.006 < 0.05$ , then could pulled conclusion that Hypothesis 2 is accepted. The result show that the managerial ownership variable has an effect on company value.

3. The Effect Institutional Ownership on Company Value

Based on t-test results for variable institutional ownership obtained significance value of  $0.253 > 0.05$ , then could pulled conclusion that Hypothesis 3 is rejected. The result show that the institutional ownership variable has no effect on company value.

4. The Effect Dividend Policy on Company Value

Based on t-test results for variable dividend policy obtained significance value  $0.013 < 0.05$ , then could pulled conclusion that Hypothesis 4 is accepted. The result show that the dividend policy variable has an effect on company value.

## V. Conclusion

Based on the results of the previous chapter's analysis and discussion, the following conclusions can be drawn:

1. Capital structure has no effect on company value, so the first hypothesis is rejected.
2. Managerial ownership has an effect on company value, so the second hypothesis is accepted.
3. Institutional ownership has no effect on Company value, so the third hypothesis is rejected.
4. Dividend policy has an effect on company value, so the fourth hypothesis is accepted.

## Research Limitations

This study still has limitations and needs to be considered by future researches. The limitations of the existing research include:

1. Period used in study this only 3 periods (2018-2010), so sample obtained limited.
2. Study this only analyze a number of variables independent course, though still many other variables that can the effect company value.

## Suggestion

Based on conclusions and limitations study that, researcher give suggestions so you can run for consideration for researchers next, namely:

1. Future researchers are expected to increase the research period so that the result are much more accurate and generalized.
2. Future researchers are expected to use other industrial sectors outside the manufacturing sector. So that the research results can be used by all companies listed on the IDX, not only the manufacturing sector.
3. Future researchers can add other variables than can predict the effect on company value.

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