

THE EFFECT OF INSTITUTIONAL OWNERSHIP AND FINANCIAL PERFORMANCE ON CORPORATE VALUE IN SUB-SECTOR PLANTATION COMPANIES LISTED IN INDONESIAN STOCK EXCHANGE PERIOD 2014-2018

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ABSTRACT

High corporate value will make the market believe not only in the corporate's current performance but also in the corporate's future prospects. The purpose of this research is to analyze how the influence of Institutional Ownership (IO) and financial performance which is proxied by Return on Equity (ROE) and Debt to Equity Ratio (DER) on the corporate value in the plantation sub-sector companies listed on the Indonesian Stock Exchange period 2014-2018. This research is about IO and financial performance which is proxied using ROE and DER as well as the corporate value which is carried out in the plantation sub-sector listed on the Indonesian Stock Exchange using secondary data. The sample used in this study are 6 company with sampling method using purposive sampling. The analytical method used is quantitative that using the classic assumption test, multiple linear regression test, and hypothesis test by using tools SPSS 25. The results revealed that IO didn't have a significant positive effect on corporate value. Financial performance which is proxied by ROE has a significant positive effect on corporate value. Financial performance which is proxied by DER has no significant negative effect on corporate value. IO and financial performance which is proxied by ROE and DER simultaneously affect the corporate value.

Keywords : Institutional Ownership, Financial Performance, Return on Equity, Debt to Equity Ratio, Corporate Value.

1. INTRODUCTION

According to Rochmah (2017), high corporate value will make the

market believe not only in the corporate's current performance but also in the corporate's prospects in the future.

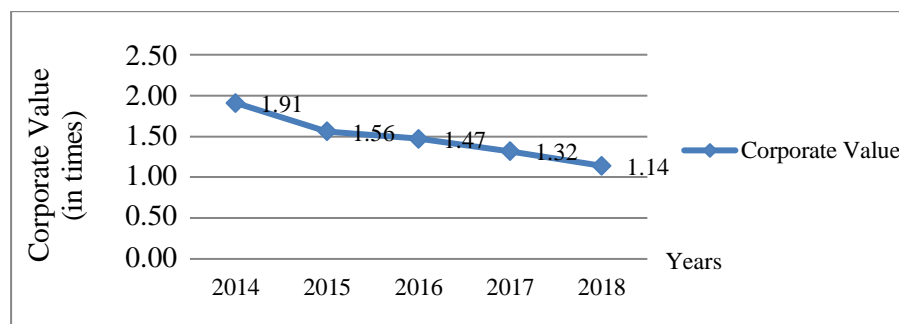


Figure 1: Average of Corporate Value

Source: Self proceed from www.idx.co.id

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Figure 1 showed in 2014-2018 the corporate value has decreased every year, this indicated that the corporate is

experiencing unhealthy conditions and raises investor mistrust of the company.

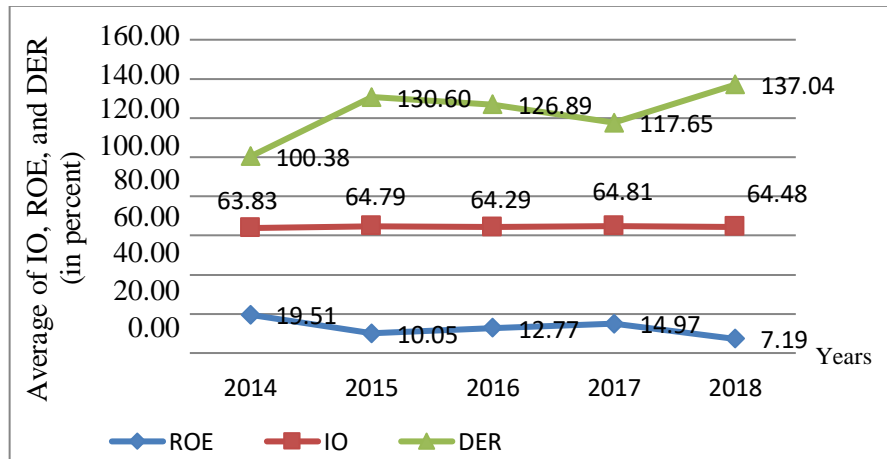


Figure 2: Average of IO, ROE, and DER

Source: Self proceed from www.idx.co.id

In Figure 2, the Institutional Ownership (IO) in 2015 and 2017 has increased by 64.79% and 64.81% while corporate value tends to decrease every year. This isn't fit the theory which states that the higher IO, the stronger level of supervision and control carried out by external parties to the corporate, so that agency costs incurred within the corporate can be minimized and the corporate value will increase (Suyanti et al., 2010 in Fitriyani, 2017).

ROE values in 2016 and 2017 have increased by 12.77% and 14.97% while the corporate value tends to decrease every year. This isn't fit the theory expressed by Hamdani (2016:136) that high ROE shows a good financial performance of the company, which resulted in investors interest in investing. So when more investors invest their capital, it will increase the stock price and the corporate value.

In 2016 the DER value has decreased by 126.89% and the corporate value also decreased. In 2017 the DER value has decreased by 117.65% and the corporate value also decreased. This isn't

fit with Sjahrial theory (2014:250) which states that in the theory of trade off models, the use of debt will increase the corporate value, but only to a certain point. After that point, the use of debt will actually reduce the corporate value, because the increase in profits from the use of debt is not proportional to the increase in financial distress and agency costs.

The purpose of this study was to analyze how the influence of IO, ROE, and DER on corporate value in plantation sub-sector companies listed on the Indonesian Stock Exchange for 2014-2018 period.

2. LITERATURE REVIEW
Institutional Ownership (IO)

According to Andika (2018), IO is shares ownership by the government, financial institutions, legal entities, foreign institutions, trust funds and other institutions at the end of the year.

$$IO = \frac{\text{Shares institutional ownership}}{\text{Amount of outstanding shares}} \times 100\%$$

Return on Equity (ROE)

According to Kasmir (2016), ROE

is a ratio to measure net income after taxes with own capital. This ratio shows the efficiency of using their own capital. The higher the ratio produced the better, on the contrary the lower the ratio produced the less good it will be.

$$ROE = \frac{\text{Net income after taxes}}{\text{Equity}}$$

Debt to Equity Ratio (DER)

According to Hery (2019:166), DER is a ratio used to measure the proportion of debt to equity. In other words, this ratio serves to find out how much each Rupiah of capital is used as collateral for debt.

$$DER = \frac{\text{Total liabilities}}{\text{Total equities}}$$

Corporate Value

According to Sattar (2017:42), the corporate value is the selling price of the company that is considered feasible by investors, so that he is willing to pay it if a company will be sold. An increase in share prices is identical to an increase in the shareholders prosperity, and an increase in share prices is identical to an increase in the corporate value.

$$\text{Tobin's Q} = \frac{\text{EMV} + \text{D}}{\text{TA}}$$

$$\text{EMV} = \text{Closing price} \times \text{amount of outstanding share}$$

EMV = Equity Market Value

D = Total Liabilities

TA = Total Assets

Hypothesis Development

The existence of institutional investors is considered capable of being an effective monitoring mechanism in every decision taken by the manager (Khafid, 2014 in Fitriyani, 2017). The higher IO, the stronger the level of

supervision and control carried out by external parties to the company, so that agency costs incurred within the company can be minimized and the corporate value will increase (Suyanti et al., 2010 in Fitriyani, 2017).

This is also in line with research of Rahmadina (2017), Apriada and Suardikha (2016), also Dewanti and Djajadikerta (2018) that IO affects the corporate value.

H₁: Institutional ownership has a positive effect on corporate value

According to Hamdani (2016), high ROE shows company's good financial performance, which is investors are more interest in investing in the company. Conversely, low ROE shows company's bad financial performance, which is investors are less interest in investing in the company.

Rochmah (2017) states that financial performance which is proxied using ROE has a positive effect on corporate value. This is also supported by research of Rahmadina (2017), Pebriani (2019), and Wibawa (2018).

H₂: ROE has a positive effect on corporate value

Sjahrial (2014:250) states that in the theory of trade off models, the use of debt will increase the corporate value, but only to a certain point. After that point, the use of debt will actually reduce the corporate value, because the increase in profits from the use of debt is not proportional to the increase in financial distress and agency costs.

Rochmah (2017) shows that financial performance which is proxied using DER has a negative effect on corporate value. This is supported by research of Arbinuri (2015), Bernandhi (2014), Pebriani (2019), Fikriyah (2018), and Wibawa (2018).

H₃: DER has a negative effect on corporate value

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H₄ : OI, ROE and DER simultaneously value
 has a positive effect on corporate

3. METHODS

The population in this study are plantation sub-sector companies listed on the Indonesian Stock Exchange in the 2014-2018 period. Sampling was done by purposive sampling method. In this study, 6 companies were taken as samples from population of 16 companies on the Indonesian Stock Exchange.

The data used is quantitative data. The secondary data obtained from

electronic media carried out by accessing and downloading financial reports from the plantation sub-sector companies from the official website of the Indonesian Stock Exchange and Financial Services. This study uses multiple regression analysis with the SPSS 25 as tools program to test data. Also uses classic assumption test, hypothesis test (include the t test, F test and coefficient determination test).

Tabel 3.1 Operational Variable

Sub Variable	Indicator	Measurement	Scale
Independent Variable			
Institutional Ownership (IO)	<ul style="list-style-type: none"> • Shares institutional ownership • Amount of outstanding shares 	$IO = \frac{\text{Shares institutional ownership}}{\text{Amount of outstanding shares}} \times 100\%$	Ratio
Financial Performance : Return on Equity (ROE)	<ul style="list-style-type: none"> • Net income after taxes • Equity 	$ROE = \frac{\text{Net income after taxes}}{\text{Equity}}$	Ratio
Financial Performance : Debt to Equity Ratio (DER)	<ul style="list-style-type: none"> • Total liabilities • Total equities 	$DER = \frac{\text{Total liabilities}}{\text{Total equities}}$	Ratio
Dependent Variable			
Corporate Value	<ul style="list-style-type: none"> • EMV • Total liabilities • Total assets 	$\text{Tobin's Q} = \frac{\text{EMV} + \text{D}}{\text{TA}}$ <p>EMV = Closing price x amount of outstanding shares EMV = Equity Market Value D = Total liabilities TA = Total assets</p>	Ratio

4. RESULTS AND DISCUSSION

Descriptive Statistics

Table 4.1: Deskriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Tobin's Q	30	.89	4.19	1.4788	.72806
IO	30	51.25	79.68	64.4400	9.41241
ROE	30	1.58	28.33	12.8978	6.79695
DER	30	19.90	268.35	122.5128	81.78564
Valid N (listwise)	30				

Source: Self Proceed

Table 2 shows the total sample of 30 companies with the average value for the variables IO, ROE, DER and corporate value is greater than the

standard deviation. This shows that there are no deviations in the variable data under study.

Classic Assumption Test

1. Normality Test

Table 4.2: Normality Test

		Unstandardized Residual
N		30
Normal Parameters ^{ab}	Mean	.0000000
	Std. Deviation	.58042429
Most Extreme Differences	Absolute	.148
	Positive	.148
	Negative	-.127
Test Statistic		.148
Asymp. Sig. (2-tailed)		.090 ^c

Source: Self Proceed

Significance value obtained was 0.090. This significance value is above 0.05 then the residual value is normally

distributed, this means that H_0 is accepted, which means that the residual data is normally distribute.

2. Multicollinearity Test

Table 4.3: Multicollinearity Test

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.248	1.143		.217	.830		
	KI	.013	.015	.167	.856	.400	.642	1.558
	ROE	.059	.018	.551	3.375	.002	.915	1.092
	DER	-.003	.002	-.333	-1.679	.105	.621	1.611

Source: Self Proceed

IO, ROE and DER have tolerance values ≥ 0.10 . IO, ROE and DER have a

VIF value ≤ 10 . Then there is no multicollinearity between variables in the regression model.

3. Heteroscedasticity Test

Table 4.4 : Heteroscedasticity Test

			IO	ROE	DER	Unstandardized Residual
Spearman's rho	IO	Correlation Coefficient	1.000	-.236	-.580**	-.110
		Sig. (2-tailed)	.	.209	.001	.563
		N	30	30	30	30
	ROE	Correlation Coefficient	-.236	1.000	.265	-.075

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		Sig. (2-tailed)	.209	.	.157	.694
		N	30	30	30	30
	DER	Correlation Coefficient	-.580**	.265	1.000	.142
		Sig. (2-tailed)	.001	.157	.	.455
		N	30	30	30	30
	Unstandardized Residual	Correlation Coefficient	-.110	-.075	.142	1.000
		Sig. (2-tailed)	.563	.694	.455	.
		N	30	30	30	30

Source: Self Proceed

The Sig. (2-tailed) IO, ROE and DER have a significant value > 0.05. Then there is no heteroscedasticity in the regression model.

4. Autocorrelation Test

Table 4.5: Autocorrelation Test

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.604 ^a	.364	.291	.61300	2.171

Source: Self Proceed

DU value of 1.6498 is obtained while a 4-DU value of 2.3502. So the results obtained from the Durbin-Watson

test with DW calculated at 2.170 are 1.6498 < 2.171 < 2.3502. It can be concluded that H₀ is accepted, meaning that there is no autocorrelation.

Multiple Linear Regression Analysis

Table 4.6: Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.248	1.143		.217	.830
	IO	.013	.015	.167	.856	.400
	ROE	.059	.018	.551	3.375	.002
	DER	-.003	.002	-.333	-1.679	.105

Source: Self Proceed

Based on the Table 7 results, a multiple linear regression model can be arranged as:

$$\text{Tobin's } Q = 0,248 + 0,013\text{IO} + 0,059\text{ROE} - 0,003\text{DER}$$

Which can be interpreted:

1. A constant value of 0.248 means that if all the independent variables namely IO, ROE, and DER are 0, then the corporate value is 0.248.

2. The IO coefficient value of 0.013 means that if the IO variable increases by 1 time, the corporate value will increase by 0.013.
3. The ROE coefficient value of 0.059 means that if the ROE variable increases by 1 time, the corporate value will increase by 0.059.
4. The DER coefficient value of -0.003 means that if the DER variable increases by 1 time, the corporate value will decrease by -0.003.

Hypothesis Test

1. Partial Regression Coefficient Test (t Test)

Table 4.7 : t Test

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.248	1.143		.217	.830
	IO	.013	.015	.167	.856	.400
	ROE	.059	.018	.551	3.375	.002
	DER	-.003	.002	-.351	-1.679	.105

Source: Self Proceed

Based on the result of the t test in Table 8, can be interpreted:

1. The significance value of IO is $0.400 > 0.05$ means the hypothesis is rejected, so it can be stated that IO doesn't significantly influence the positive direction of corporate value.
2. The significance value of ROE is $0.002 < 0.05$ means the hypothesis is accepted, so it can be stated that ROE has a significant positive effect on the corporate value.
3. The significance value of DER is $0.105 > 0.05$ means the hypothesis is rejected, so it can be stated that DER doesn't significantly influence the negative direction of corporate value.

2. Simultan Regression Coefficient Test (F Test)

Table 4.8: F Test

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.604	.364	.291	.61300

Source: Self Proceed

Based on the results of the F test in Table 9, the significance value obtained is 0.007. Thus $0.007 < 0.05$ means the hypothesis is accepted. So it can be stated

that IO, financial performance which is proxied by ROE and DER are simultaneously influence the corporate value.

3. Coefficient Determination Analysis (R²)

Table 4.9 : R² Test

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.602	3	1.867	4.969	.007 ^b
	Residual	9.770	26	.376		
	Total	15.372	29			

Source : Self proceed

R² in this study amounted to 0.364 or 36.4% which means that the percentage contribution of influence

between IO and financial performance which is proxied by ROE and DER is 36.4% while the remaining 63.6% is

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influenced by other variables not explained in this study.

1. The Effect of IO on Corporate Value

Based on the result of the R^2 test in Table 10, IO had a t test result of a significant value of $0.400 > 0.05$. So it can be concluded that IO had no significant effect on corporate value, so H_1 was rejected.

This is due to the lack of involvement of institutional shareholders in managerial decision making, because institutional investors only control and supervise the actions of managers, not as decision makers. In addition, institutional share data didn't experience significant changes and the number of outstanding shares from year to year tended to be constant and only a few experienced an increase. So that the percentage of IO of each company doesn't experience significant changes and there is a constant cause the results to be insignificant.

The results of this study are supported by Bernandhi and Muid (2014), Awulle, Desmi I, Murni, and Rondonuwu (2018), also Arbinuri (2015) which state that IO has no effect on corporate value.

2. The Effect of Financial Performance Proxied by ROE on Corporate Value

The results showed that the financial performance which is proxied by ROE based on the results of the t test with a significance value of $0.002 < 0.05$. So it can be concluded that the financial performance proxied by ROE significantly affected the corporate value, so H_1 is accepted.

The results show that the sample company ROE is good value and shows that the plantation company has been able to manage its capital well. So the higher the ROE value, the coporate can generate high profits for investors, it will make

investors interested investing in corporate that provide benefits to investors.

The results of this study are supported by Rahmadina (2017), Rochmah (2017), Pebriani (2019), also Wibawa (2018) who state that ROE has a positive and significant effect on corporate value.

3. The Effect of Financial Performance Proxied by DER on Corporate Value

The results showed that the financial performance proxied by DER based on the t test results was significance value of $0.105 > 0.05$. It can be concluded that the financial performance proxied by DER didn't significantly affected the corporate value, so H_3 was rejected.

The Modigliani-Miller Model Theory which argues that the greater the debt used will not affect the corporate value. This is because investors not only see DER as the only information that is used as a consideration for investing in corporate. The results of this study were supported by Dewanti and Djajadikerta (2018), Apriada and Suardikha (2016), Wibawa (2018), also Fikriyah (2018).

4. The Effect of IO, ROE, and DER on Corporate Value

Based on the F test results, the significance value is $0.00 < 0.05$. It can be concluded that IO and financial performance which is proxied by ROE and DER simultaneously affected the corporate value. The results of this study were supported by Arbinuri (2015), Apriada and Suardikha (2016), Rahmadina (2017), Wibawa (2018), Awulle, Murni, and Rondonuwu (2018), Dewanti and Djajadikerta (2018), also Pebriani (2019).

5. CONCLUSION

Conclusion

1. The IO test results show that the significance value is $0.400 > 0.05$ so it can be stated that IO has no effect on corporate value.
2. The results of financial performance testing proxied by ROE show that the significance value is $0.002 < 0.05$ so it can be stated that ROE has a significant effect on corporate value.
3. The results of financial performance testing proxied by DER show that the significance value is $0.105 > 0.05$ so it can be stated that DER has no effect on corporate value.
4. The F test results significance value is 0.007, so it can be stated that IO, financial performance proxied by ROE and DER jointly affected the corporate value.

Advice

1. Advice for Academic
This research was conducted to contribute to the development of accounting science, specifically financial accounting about the effect of institutional ownership and financial performance (that are profitability ratios and solvency ratios) to corporate value in plantation sub-sector companies.
2. Advice for Practitioners
The results of this study are expected to help solve problems in decision or policy making by the corporate management regarding matters deemed necessary related to institutional ownership and financial performance (that are profitability ratios and solvency ratios) as well as corporate value.

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